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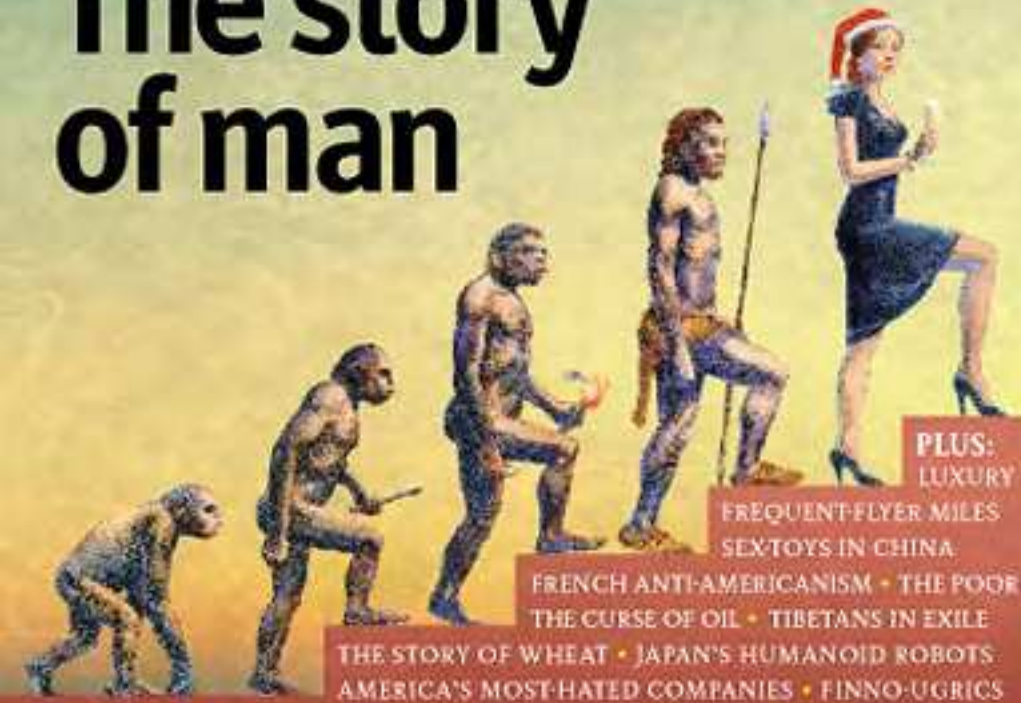

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Economist.com WORLD

Politics this week

Dec 20th 2005
From The Economist print edition

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Iraqis turned out in record numbers—perhaps 70% of registered voters—to elect a new parliament. Most insurgent groups in the country's violent Sunni Arab areas appeared to let their co-religionists go to the polls to win better representation than last time, in January, when most Sunni Arabs abstained. An Islamist Shia group that dominates the present government looked set to win again; an Islamist Sunni group, competing for the first time, did well; more secular-minded Shias scored poorly. A coalition government may take weeks or even months to emerge. See article

Israel's prime minister, Ariel Sharon, who recently set up a new party to the left of the ruling Likud, suffered a minor stroke, but was said to be fit enough to fight on. Meanwhile, Likud elected Binyamin Netanyahu, a former prime minister and opponent of the Gaza withdrawal, as its leader. See article

Despite facing a strong electoral challenge from the Islamists of Hamas, the **Palestinians'** ruling party, Fatah, fell into disarray. Its young guard split off to put forward a separate candidates' list, calling itself Al-Mustaqbal ("the Future"), for a parliamentary election due next month. See article

For the first time since 1970, the **Congolese** voted nationwide in a constitutional referendum. If endorsed, the constitution would grant more autonomy to remote regions and pave the way for a multi-party general election. Some polling stations in Kinshasa, the capital, were burnt down. See article

A done deal

The European Union summit eked out a deal on the **EU budget** for 2007-13. Britain's Tony Blair, who presided, gave up more of the British budget rebate, but he said this corresponded only to Britain's share of the cost of enlarging the EU. Despite Mr Blair's gesture, France made no concessions on the common agricultural policy beyond a vague "review" promised for 2008. See article

The EU summit saw the debut on the international stage of Germany's new chancellor, **Angela Merkel**. She was credited by many for her grasp of details and for assembling the final compromise. See article

AFP

Turkey's government was in a quandary over a case against Orhan Pamuk, a famous author, for bringing disrespect to the country by mentioning to a Swiss newspaper the deaths of 30,000 Kurds in the past three decades and a million Armenians during the first world war. European parliamentarians pressed the government to drop the case, which has now been adjourned until February. See article

Macedonia won its much-sought formal status as a candidate for entry into the European Union. Although the date for the start of talks has yet to be fixed, the news heartened other Balkan countries hoping to join the EU.

The listening president

The *New York Times* reported that the Bush administration had bypassed the courts to allow the **National Security Agency** to eavesdrop on people suspected of having links to al-Qaeda. George Bush admitted signing 30 such orders since September 11th 2001 and said they were within the law. Meanwhile, the row spilled over to the

countries.

French police arrested 20 Islamic radicals in the Paris region who they said were part of a network linked to "a terrorist enterprise". Most of the suspects were of north African origin or descent.

Back to the ballot box

Michelle Bachelet, the presidential candidate of **Chile's** ruling centre-left Concertación coalition, faces a tight run-off election against Sebastián Piñera, a moderate conservative. In the first round on December 11th, Ms Bachelet won 46% of the vote, against a combined 48% for the two conservative candidates.

A court in **Brazil's** Amazon state of Pará found two local men guilty of the killing last February of Dorothy Stang, an American nun and environmental activist. Two ranchers have been accused of ordering the crime.

Colombia's president, Álvaro Uribe, offered to withdraw troops from a small mountain town to allow talks with FARC guerrillas over the release of dozens of hostages. The government was also to start talks with the smaller ELN guerrilla army.

The United Nations **climate-change** conference in Montreal ended more positively than some had predicted. The United States agreed to join talks in the future, as long as mandatory emissions targets were not on the agenda. See article

Talking Doha down

AFP

The **World Trade Organisation's** biennial ministerial conference got under way in Hong Kong, amid protests and scuffles with the police. Cold water has been poured on any hope of substantive deals on free trade in farm goods, industrial tariffs and services emerging from the talks. See article

Chinese police fired on a demonstration in a Guangdong village, killing three people (according to officials) or 20 (according to the villagers). Unusually, the government promptly announced that the official responsible had erred and would be tried. See article

Eleven members of **India's** parliament were filmed by a news website allegedly receiving cash for asking parliamentary questions. Nine of them have been suspended.

Cronulla, a beach suburb of **Sydney**, experienced two nights of violence after a group of young Lebanese men attacked lifeguards. Thousands of white Australians then went on a racist rampage. See article

A row over death row

Stanley "Tookie" Williams, who co-founded the infamous Crips gang in the 1970s, was executed in **California**. Mr Williams had turned into an advocate against gang culture and written books for

children. Governor Arnold Schwarzenegger refused to exercise clemency, pointing out that Mr Williams had never accepted responsibility or expressed regret for four brutal murders of which he was found guilty in 1981. See article

Louisiana's governor, Kathleen Blanco, postponed next year's **New Orleans** mayoral election indefinitely. Ms Blanco says the city has still not sufficiently recovered from Hurricane Katrina. Meanwhile, George Bush strongly rejected claims that the government's inadequate response to the disaster in late August was based on race.

The Supreme Court said it would hear a case that challenges the constitutionality of **Texas's** congressional boundaries. Democrats claim that a contentious redistricting map, overseen by Tom DeLay, the suspended majority leader of the House of Representatives, gave the Republicans several extra seats in the 2004 congressional elections.

Virgin Galactic, a space-tourism firm created by Sir Richard Branson, announced an agreement with **New Mexico** to build a spaceport in the state. Flights are scheduled to take off in 2008 from the complex, which will be near the town of Truth or Consequences.

AFP

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Economist.com BUSINESS

Business this week

Dec 20th 2005
From The Economist print edition

Antonio Fazio resigned as governor of the Bank of Italy. Mr Fazio was implored to quit by Italy's finance minister last week after revelations that he is under investigation for misusing privileged information relating to a bid for Banca Antonveneta. He is already being investigated for abuse of office in favouring Banca Popolare Italiana's (failed) offer for Antonveneta. The pressure on Mr Fazio grew after the arrest on December 13th of Gianpiero Fiorani, his friend and BPI's former chief executive, for a range of alleged offences that included embezzlement. See article

Florida Power & Light offered to buy **Constellation Energy Group**, based in Maryland, for $11 billion. It is the third-largest merger deal among American utilities this year.

Google was reported to have reached an agreement with Time Warner to take a 5% stake in **AOL**, trumping Microsoft in a move that would boost Google's and AOL's online advertising businesses. Speculation has been rife over a deal, which is being made in the face of a revolt by investors in Time Warner who want the company broken up.

Making drugs

In a ruling that favours big pharmaceutical firms, a federal judge in America upheld two of **Pfizer's** patents on its Lipitor treatment for cholesterol. Ranbaxy Laboratories, a generic-drugs maker based in India, had challenged the patents in an attempt to launch a competing product. Sales of Lipitor amount to $12 billion a year.

Merck laid out additional cost-cutting plans that will reorganise its research into diseases. Last month the pharmaceutical company unveiled a restructuring programme of plant closures and job losses to save $4 billion over three years; the additional plan will save an extra $1 billion over four years. The firm also said the number of lawsuits filed over its Vioxx anti-inflammatory drug had risen to 9,200.

Amgen, the world's biggest biotechnology group, agreed to pay $2.2 billion for **Abgenix**, a smaller rival. The companies have been collaborating on a new drug for fighting colon cancer that is in the final stages of testing.

Illinois's top court overturned a $10 billion award for damages against **Philip Morris**,won by smokers who claimed they had been cheated because they had not been sufficiently warned about the health risks from "light" cigarettes. The decision is a big victory for the tobacco company, which is still waiting to see if a separate $145 billion award in Florida for damages against it and other firms will be reinstated by the state's Supreme Court.

Playing for time

Macquarie Bank formalised its bid, on December 15th, for the **London Stock Exchange**. However, the Australian bank did not increase its indicative offer, made a week earlier, valuing the LSE at £1.5 billion ($2.7 billion). Macquarie assembled an unusual group of co-investors, including a Portuguese holding company that has stakes in infrastructure projects, two London hedge funds and an Australian businessman best known for his involvement with a surfwear company. The stockmarket's management dismissed the bid as "derisory".

Rentokil, a British business-services firm, became the first FTSE 100 company to close its final-salary pension scheme to future accrual by current workers. Most of Britain's top quoted firms have already closed such schemes to new employees. See article

In Hungary's biggest single privatisation, **BAA**, the operator of Heathrow and Britain's other main airports,

creating games for mobile phones, for $680m. The deal comes amid a rapid expansion in mobile gaming, which is estimated to be worth $2 billion worldwide in 2005 compared with $1 billion in 2004.

Bonus

Lehman Brothers led a crop of stellar results from Wall Street investment banks. In the year ending November 30th, the firm's net income rose by 38% on the previous year, to $3.3 billion.

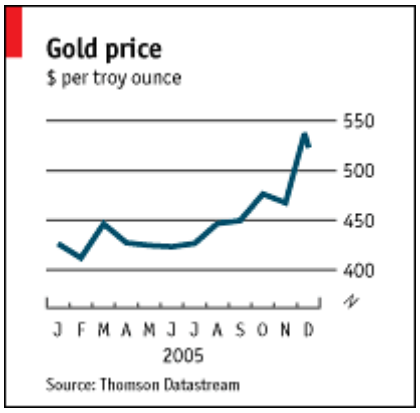
The first federal court case brought against **Merck** over Vioxx, an anti-inflammatory drug that was withdrawn on safety grounds, ended in a mistrial after the jury failed to reach a unanimous decision (two state cases have already been heard). The judge ordered the case to be retried. See article

The OECD reported that China had surpassed the United States for the first time in exporting **information-technology goods**, such as computers, mobile phones and related parts. China exported $180 billion-worth of IT goods in 2004, and is expected to keep its top position when figures are collated for 2005. See article

America's Federal Reserve put up its key **interest rate** by one-quarter of a percentage point, for the 13th consecutive time, to 4.25%. Economists pored over the language of the central bank's accompanying statement for an indication that the cycle of interest-rate rises will soon end.

Showing its mettle

The price of **gold** continued its bullish run, breaking $540 a troy ounce for the first time since 1981 during trading on December 12th. Japanese investors, looking for higher-yielding assets than the weakened yen, are reckoned to have been a primary factor in the recent price hike. But some analysts also predict the price will remain high next year, as big gold producers have lowered forecasts of their output.



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Economist.com **OPINION**

Evolution

The story of man

Dec 20th 2005
From The Economist print edition

Modern Darwinism paints a more flattering portrait of humanity than traditionalists might suppose

IN THOSE parts of the planet that might once have been described as "Christendom", this week marks the season of peace on Earth and goodwill towards men. A nice idea in a world more usually thought of as seasoned by the survival of the fittest. But goodwill and collaboration are as much part of the human condition as ill-will and competition. And that was a puzzle to 19th-century disciples of Charles Darwin, such as Herbert Spencer.

It was Spencer, an early contributor to *The Economist*, who invented that poisoned phrase, "survival of the fittest". He originally applied it to the winnowing of firms in the harsh winds of high-Victorian capitalism, but when Darwin's masterwork, "On the Origin of Species", was published, he quickly saw the parallel with natural selection and transferred his *bon mot* to the process of evolution. As a result, he became one of the band of philosophers known as social Darwinists. Capitalists all, they took what they thought were the lessons of Darwin's book and applied them to human society. Their hard-hearted conclusion, of which a 17th-century religious puritan might have been proud, was that people got what they deserved—albeit that the criterion of desert was genetic, rather than moral. The fittest not only survived, but prospered. Moreover, the social Darwinists thought that measures to help the poor were wasted, since such people were obviously unfit and thus doomed to sink.

Sadly, the slur stuck. For 100 years Darwinism was associated with a particularly harsh and unpleasant view of the world and, worse, one that was clearly not true—at least, not the whole truth. People certainly compete, but they collaborate, too. They also have compassion for the fallen and frequently try to help them, rather than treading on them. For this sort of behaviour, "On the Origin of Species" had no explanation. As a result, Darwinism had to tiptoe round the issue of how human society and behaviour evolved. Instead, the disciples of a second 19th-century creed, Marxism, dominated academic sociology departments with their cuddly collectivist ideas—even if the practical application of those ideas has been even more catastrophic than social Darwinism was.

Trust me, I'm a Darwinist

But the real world eventually penetrates even the ivory tower. The failure of Marxism has prompted an opening of minds, and Darwinism is back with a vengeance—and a twist. Exactly how humanity became human is still a matter of debate. But there are, at least, some well-formed hypotheses (see article). What these hypotheses have in common is that they rely not on Spencer's idea of individual competition, but on social interaction. That

insurgents fine. The longer the mayhem continues, the likelier the new order is to disintegrate, whatever the merits of the new constitution and however representative the new parliament. And the longer the insurgency grinds on, the likelier it is that the Americans, even under a stubborn Mr Bush, will lose their nerve and depart. Guerrillas the world over win merely by not losing. It is plain, despite improvements in American counter-insurgency techniques (see article), that military power cannot alone defeat the insurgents. Iraq will never function as a secure state until a critical mass of Sunni Arabs are persuaded that it is in their interest to help put down the insurgents.

But how? American military power, gradually replaced by Iraqi forces, may be able to keep the insurgency at bay; but it can be defeated, or at least isolated, only by political means.

Official Washington has stuck for too long to the line that the insurgents are mostly jihadists linked to al-Qaeda and "regime remnants" intent only on reclaiming their former privileges. It has been convenient for both the Bush administration and for Iraq's interim government to portray things that way; but, if it was ever true, it no longer is. The insurgency now has a broad base within the Sunni population, much of which was traumatised by the sweeping away of the Baathist state and the erasure of its key institutions, notably the army. In many Sunni minds, Mr Hussein's dictatorship is being replaced by a Shia dictatorship. The Shias may be the majority but are held to be carving a proud Arab nation into one oil-rich Shia state under the influence of Iran, and a separate breakaway region, also rich in oil, for the Kurds. If the post-Saddam dispensation is to be winner-takes-all, Sunnis seem determined to make sure that there will be no winner at all.

The new parliament's first job must therefore be to create a coalition government broad enough to persuade the Sunnis that they will have a central, if no longer dominant, place in the new Iraq. The United Iraqi Alliance, a predominantly Shia Islamist collection implicitly blessed by the hugely influential Grand Ayatollah Ali al-Sistani, looks set to win the most votes. An alliance of the two main Kurdish parties is even surer to sweep the Kurdish north. Together, these two blocks have the numbers to run the show, as they have done for the past year. But it is crucial that they now embrace at least one of the Sunni-led alliances that have emerged since January.

This will not be an easy thing for Shias and Kurds to do. Many feel that they owe the Sunnis nothing after years of oppression at their hands. But taking Sunni parties into a governing coalition is only the first of several difficult steps the former underdogs need to take if they are to draw the sting of the insurgency. They will also have to make real concessions, even if this means tweaking the new constitution. Though the document has many merits, and was negotiated painstakingly, its formula for sharing Iraq's oil revenues is divisive, making Sunnis fear they will not get a fair whack. And parliament should limit a provision that enables the Shia Arabs to create a "super-region" of perhaps eight or nine provinces. As it stands, this lets Sunnis believe that federalism means breaking up the country. Parliament should also soften the deBaathification rules, so that many more Iraqis who served Mr Hussein's dictatorship should be drawn back into the machinery of state, unless they are senior figures with blood on their hands.

What America can do

The chances of a broad, tolerant, multi-sectarian coalition government emerging are not brilliant. The best organised of the Islamist parties in the United Iraqi Alliance is the Supreme Council for the Islamic Revolution in Iraq, better known as SCIRI. Some of its militias are sectarian, murderous and close to Iran. Too many of them are being incorporated whole, with their sectarian allegiances intact, in the new army and police. While Sunni suicide-bombers kill Shias in mosques and buses, SCIRI's friends assassinate and torture Sunnis. As the gulf widens, compromise becomes harder.

The new Shia ascendancy must realise that Iraq will become stable only if its new top dogs are

generous. If the Shias do not recognise this for themselves, America should use its influence as the new government's protector to squeeze some generosity from them. Otherwise the country will not hold together, and the blood of too many Iraqis—and too many Americans—will have been spilt in vain.

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Economist.com OPINION

Dodgy science

Patriot games

Dec 20th 2005
From The Economist print edition

Nationalism and science don't mix

THE twisted tale of Hwang Woo-suk, a once-feted but now-disgraced South Korean stem-cell researcher, is salutary at many levels. It shows, first, that you can't cut corners in science—at least, not in any meaningful way. The occasional dud result in a low-profile field of endeavour may escape critical scrutiny, but if you report inaccurate work in an area as controversial and important as human cloning, your slips will catch up with you pretty quickly. Second, it shows the risks to scientists of becoming celebrities. An artistic celebrity's audience may prove fickle, but ultimately it is only that artist's talent that is being judged. A scientific celebrity's success, by contrast, relies both on his talent and on nature delivering the goods to him in a timely fashion—and nature does not bend to a scientist's will, however much he or his audience may wish it might.

Hubris and vanity are all too human vices and, despite occasional propaganda to the contrary, scientists are, indeed, only human. But the third salutary lesson of this episode, though related to the other two, is deeper. It is that nationalism and science are uneasy bedfellows. Dr Hwang's downfall was set in train by his elevation by the South Korean government into an emblem of his country's emergence as a scientific power. That both flattered him and demanded the next great breakthrough from his laboratory. In the end, he came up with a fatally flawed piece of research that has now been disowned by collaborators (see article).

The most famous example of deluded scientific nationalism was Trofim Lysenko, a Soviet geneticist. Or, rather, a non-geneticist. Lysenko was flattered and financed by Stalin because he claimed that an organism could pass on to its offspring characteristics it acquired in its lifetime. That fitted well with Marxist ideology about the mutability of nature, but wrecked the Soviet Union's crop-improvement programme.

The reverse phenomenon, of discounting something because of its source, applies too. Before the second world war, many of Germany's finest physicists were Jewish. That did not please the Nazis, whose actions persuaded those physicists that their best interests lay elsewhere. It also led the Nazis to refuse to incorporate "Jewish science" into their pure-bred Aryan reality. Which was, perhaps, just as well, for much of the exiled talent ended up on the Manhattan project while Germany's own atomic-bomb programme was stymied.

In spite of the success of the Manhattan project, engineering can also fall victim to national pride. Because the science behind such schemes is rarely in doubt, they can often "succeed" if you throw enough money at them. But to what end? It is doubtful that America's race with the Soviet Union to put a man on the moon was of much scientific value, although it did produce some great television. The multi-billion-dollar manned space station

(allegedly international, but in practice an American enterprise) is an operation looking for a mission.

The truth will out

Compared with these dire examples of waste and destruction, Dr Hwang's mistake looks relatively modest. Those opposed to human cloning may raise a cheer or two that a great leap forward which they had feared seems not to have happened. But, as the Nazis discovered, denying reality just because you don't like it is equally foolish. Eventually, somebody probably will clone a human being. Just not, perhaps, in South Korea.

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Economist.com **OPINION**

The European Union

Brussels fudge

Dec 20th 2005
From The Economist print edition

Why the EU budget compromise is worse than no deal at all

Reuters

LAST weekend's summit agreement on the European Union budget was in line with the best Brussels traditions. It was done long after midnight, at the end of a bruising day of negotiations. Almost nobody was satisfied. The British press said that Tony Blair had given away Margaret Thatcher's sacred budget rebate and got nothing in return. The share of EU spending that goes on its ludicrous common agricultural policy (CAP) stayed at a whopping 40%. And, rather than holding a proper debate now over what the EU should be doing and how it ought to spend its money, the exhausted leaders promised a feeble-sounding review in three years' time—when most of them will, with luck, no longer be in office.

There was certainly a case for getting the budget for 2007-13 out of the way, to avoid spending next year squabbling over money. Never mind what the British newspapers said—Mr Blair had to offer back some of the rebate, and not only because, as holder of the rotating EU presidency, he was under pressure to compromise. Had the rebate remained unchanged, Britain would have paid next to nothing towards the cost of expanding the club to take in ten mostly poor countries from central and eastern Europe; indeed, it would have become the second-smallest net contributor after Cyprus. And France's Jacques Chirac had long made clear that he was not prepared to reopen the October 2002 deal to preserve CAP spending in real terms until 2013—a deal that Mr Blair and all other EU leaders accepted at the time.

This budget agreement might thus have been the best that could be done. Even then it took hard pounding. That the deal was secured at all owed something to Mr Blair's anxiety for the British presidency to end on a good note; rather more to the good offices of Angela Merkel, the new German chancellor, who cajoled her fellow leaders and offered helpful concessions at crucial moments; and nothing at all to Mr Chirac, who remained obdurate over the CAP (see article). Yet even if the budget agreement was the best available, that is not enough reason to prefer it to the alternative of no deal at all.

Where Blair went wrong

The biggest failing remains the CAP. Mr Chirac's reluctance to cut a policy that benefits France to the tune of €3 billion ($3.6 billion) net, per year (only a bit less than Britain's notorious rebate) is understandable. And the CAP is in the midst of a big switch from production-linked (and trade-distorting) subsidies to direct income payments to farmers. Yet Mr Blair was right to declare in June that a modern EU budget would not be one that spent 40% on agriculture. Worse, the lack of progress in last week's Hong Kong ministerial meeting to discuss the Doha round of

the chamber quicker? Above all, what purpose did his death serve, other than retribution? Mr Williams was surely doing more to prevent crime outside prison and encourage rehabilitation inside it while he lived. And there is also that tiny bit of doubt about his conviction.

Even when it is carefully administered, America's machinery of death still seems cruel and unusual. The United States is not the only democracy to retain the death penalty: Taiwan, Japan and India also do. But the number of executions it carries out puts it closer to China, Iran and Vietnam. Eighty-six countries, including all 25 members of the European Union (where murder rates are much lower than America), have abolished the practice altogether, and another 35 rarely use it.

Yet the row about Mr Williams also shows that America may be changing its mind. After steadily rising to a rate of 98 a year in 1999, the number of executions has fallen—to 59 last year and probably about the same this year, according to the Death Penalty Information Centre. Of the 38 states that retain the death penalty, 16 have not used it in the past two years. Public opinion has also been swayed by the publicity given to miscarriages of justice, especially in the light of DNA testing. Two years ago, Illinois's Republican governor commuted the sentences of 167 people on the state's death row.

Most Americans still support the death penalty, but the figure has fallen from 80% in 1994 to just 64% in a Gallup poll in October. The proportion falls further if the alternative is life imprisonment without parole, which is now an option in virtually all the death-penalty states. That has also helped the most encouraging trend of all: the number of death-penalty sentences has dived from around 300 a year a decade or so ago to fewer than 100 this year—the lowest level in three decades.

So America may be changing its mind. But that still leaves 3,400 people on death row. The next arrival in Emperor Schwarzenegger's Circus Maximus is a man whose 76th birthday is on January 16th, the day before his execution.

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Economist.com **OPINION**

The IMF and Argentina

Néstor unbound

Dec 20th 2005
From The Economist print edition

Argentina is bidding for freedom from the IMF—and to pursue dodgy economic policies

OPEN up the heart of any senior official at the International Monetary Fund—yes, they do have them—and you will likely find it engraved with the word "Argentina". No country has given more grief to the world's lender of last resort. And arguably nowhere has the IMF made more costly mistakes. So when, on December 15th, Néstor Kirchner, Argentina's president, announced that his government would this month repay its entire $9.8 billion debt to the Fund, the reaction in Buenos Aires was euphoric applause—and that of IMF officials presumably one of relief.

Argentina's decision is part of a wider trend. Only two days before, Brazil said it would repay early the $15.5 billion it owed the IMF. In 2003, Thailand did something similar, and Indonesia said it would seek no fresh money from the Fund. With the world awash with liquidity, and many developing countries holding large reserves, it makes sense to pay off debts, including those to the IMF. This can save money: the interest due usually outweighs what central banks earn on their reserves. It can also bring political gains: no government likes voters to think that it is being bossed around by the IMF.

As a result, some argue that the Fund will soon have so little to do that it should quietly be abolished. Yet that involves some Panglossian assumptions. It is indeed heartening that Argentina's debacle has not been repeated since. With risk premiums on emerging-market bonds at all-time lows, investors seem to think that even Latin American securities have never been safer. But in a world of open trade and broadly free capital movement even though many countries now have floating exchange rates, it is surely only a matter of time before the Fund is once more called upon to help deal with balance-of-payments shocks—perhaps, once again, in Argentina.

The risk of a return to Argentina's past

When Brazil repays its debt to the Fund, it does not plan any radical policy departures. Antonio Palocci, the Brazilian finance minister, has long insisted that the government has worked hard to reduce its debt burden and overcome an inflationary spike not because the IMF ordered it to but because these policies were in the national interest. Argentina, sadly, does not seem to see things that way (see article).

Mr Kirchner, like many Argentines, pins the blame for his country's economic collapse of 2001-02 squarely on the Fund. It was "the promoter and vehicle of policies which provoked poverty and pain in the Argentine people," he said, to applause, on December 15th. Certainly the Fund was an accessory to the collapse: it overpraised Carlos Menem, Argentina's president of 1989-99, failing to blow the whistle on his loose fiscal policy. Its final effort to prop up a fixed exchange-rate regime with an $8 billion loan in September 2001 merely prolonged the agony. But it was Argentina's politicians and people who were responsible for the policies that lay behind the collapse. And whereas some observers criticise the Fund for trying to be too tough since the collapse, others argue that fear of one of its largest debtors defaulting made it too lenient.

It is true that Mr Kirchner's decision testifies to the strength of his country's recovery. This has been based on reasonably sound policies, abrasive treatment of private creditors and a large dollop of luck in the form of high prices for Argentina's commodity exports. Yet repaying the IMF may not be as sweet a deal as Mr Kirchner claims. For a start, the government is likely to pay a relatively high interest rate on the bonds it now plans to issue (and sell to Hugo Chávez's Venezuela, its new ally). And Mr Kirchner has made it clear that his main aim in repaying debt is to avoid further IMF restraint on his policies.

This determination to throw off constraints comes at a delicate moment. Although Argentina's recovery is more or less complete, it must now introduce policies to sustain growth. But investment remains too low, and may not be

raised by Mr Kirchner's offer of sweetheart deals to favourites. The IMF would have pushed for the reform of public finances and of the tariffs of privatised utilities in order to offer investors a predictable policy framework over the medium term. Now they will have to depend on Mr Kirchner's word alone.

A second danger is inflation, Argentina's former nemesis, which has lately surged to 12%, partly because of loose monetary policy. Mr Kirchner is trying to suppress it with price controls. That may work for a year or two—enough to get the president re-elected. But look a little further, and the risk is that Argentina will repeat its sad story of 1945-91: inflationary booms followed by balance of payments crises and, yes, panicky calls on the IMF. It does not have to be like that, if Mr Kirchner uses his freedom from the IMF to maintain rational policies. If he does not, Argentines will at least know who to blame the next time their economy hits the buffers.

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Entrepreneurship

Gerontocapitalism

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Greed is good for you

GETTING old is a depressing prospect. If things go well, you may find yourself playing shuffleboard on a cruise ship with some fellow geriatrics; if things go badly, then it is off to the old folks' home. Meanwhile, the definition of "old" seems to become less and less forgiving. Britain's Conservative Party recently elected David Cameron, aged 39, as its new leader—largely on the basis that he is young, and has a splendid head of glossy hair. His older and more experienced colleagues—men in their 50s and 60s—were dismissed as hopelessly past their sell-by-date. And politics is simply reflecting society. Only two-fifths of 55-to-64-year-olds are still working in western Europe; even in the United States more than a third of them have stopped working.

But one group is setting an inspiring counter-example: there is no apparent retirement age for tycoons and corporate raiders. The grand-daddy of them all is Kirk Kerkorian, often described in a magnificently deadpan phrase as the "88-year-old Las Vegas-based corporate raider". Mr Kerkorian made his fortune in airlines and hotels. But since last May he has bought almost 10% of General Motors and has been piling pressure on the company's management, in an effort to get his man on to the board and shake the place up. Some might argue that a desire to get closely involved with GM is evidence of senility. But Mr Kerkorian has a formidable reputation as an investor, and is nobody's fool. Compared with him, Carl Icahn, another corporate raider, is a mere adolescent. At 69, he too is past the normal retirement age—but is still well-capable of striking fear in any boardroom. Mr Icahn's latest quarry is Time Warner, the world's largest media company.

Certain chief executives also seem able to ignore the rules that govern mere mortals and middle-managers. At the age of 74, Rupert Murdoch has launched a bold new internet-based strategy for News Corporation. Meanwhile Sumner Redstone, the 82-year-old boss of Viacom, has just outmanoeuvred his rivals at NBC Universal, and snatched away the prize of the DreamWorks SKG film studio for $1.6 billion. Sceptics might respond that Messrs Murdoch and Redstone are now just sitting atop empires that they created many years ago. Few people have the energy to create a business from scratch, once they are getting on. Maybe so, but it has been done. Ray Kroc launched the McDonald's restaurant chain at the age of 52, and built it up over the next 30 years.

The elixir of corporate life

So what lessons can ordinary mortals glean from the Krocs and the Kerkorians? First, be your own boss—then nobody can sack you or force you to retire. Voters and managers, who control the fates of politicians and of ordinary workers, are foolishly susceptible to ageist prejudice. Shareholders, by contrast, don't care how wrinkly a chap looks so long as he delivers the dividends. Second, never retire—it rots the brain. Mr Murdoch once returned

an advance he had been given to produce his autobiography, remarking that sitting down to write his life story would be like admitting it was all over.

Finally, "greed"—the pursuit of wealth—is obviously good for you: keeping at it is helping to keep these men young. The money, evidently, is not the point. The Kerkorians, Redstones, Icahns and Murdochs have stashed away more billions than they could ever spend on new houses or wives, yet they go on slugging. Maybe it's the lust for power that drives them to fulfil their evolutionary destiny. Maybe it's the love of the chase. Either way, it beats shuffleboard.

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On Turkey, Russia, ideology in America, crypto-Stalinism, migrant workers, gold, Europe

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In need of a makeover

SIR – Blaming Turkey alone for its bad portrayal in Europe is unfair ("An image problem", December 3rd). Yes, Turkey has made many mistakes in the past. But haven't European governments also contributed to this image by condoning, not to say supporting, anti-Turkish campaigns in their own countries in anticipation of political gains? It will take strong political will on all sides for this trend to reverse. Yet while the Turkish government has commendably done its part, the European effort is nowhere in sight. You are now adding your voice to that of José Manuel Barroso, the head of the European Commission, in preaching that Turkey must do more to win the hearts and minds of European citizens. My response is summed up in the popular Turkish saying: "It takes two hands to clap." If Europeans do not join the clap sooner rather than later, and with a firm political commitment, it will not take the Turkish people much longer to finally realise the futility of beating against air.

Erdal Taylan
Ankara

Like a good wine

SIR – Russian democracy, or any democracy for that matter, needs time to evolve ("Frozen out", December 3rd). Democracy took a long time to mature in France and Britain, who were in a similar position as Russia is today in the late 18th and 12th centuries respectively. Moreover, Russia is more culturally diverse and economically backward compared with nations in west Europe. Sergei Witte, Nicholas II's prime minister, said in 1905: "The world should be surprised that we have any government in Russia...with many nationalities, many languages, and a nation largely illiterate, the marvel is that the country can be held together even by autocracy. If the tsar's government falls, it will be many a year before you see another government able to control the mixture that makes up the Russian nation". This argument, I think many would agree, is also true regarding the situation in Chechnya today ("Putin's heroes", December 3rd).

Jawad Ahmed
Karachi, Pakistan

Guessing games

SIR – Lexington's thoughts on ideologies in America miss the point (December 3rd). The primary motivation behind liberalism is not promoting "big government" but meeting the needs of the less well-off: big government is only a means to that end. *The Economist*, while perhaps genuinely committed to meeting such needs, insistently advocates actions that often undermine the achievement of that goal. For example, you persist in arguing, despite the lack of evidence, that higher taxes (within reason) will reduce the willingness to work. You also advocate the privatisation of Social Security, while paying little or no attention to what happens to people whose investments, through bad choices or bad luck, don't prosper. I put it that *The Economist* itself is in the grip of an ideology, one of growth and markets that gives little consideration to their limitations or to trade-offs. Growth is also a means, not an end. It's time to update your paradigm.

Richard Greene
Hopewell, New Jersey

SIR – Lexington smacks of the liberal, partisan media by seeming to suggest that America craves a return to the Clinton era, when ideology and leadership were sacrificed entirely upon the altar of day-to-day governance. He

calls it pragmatism: I call it bureaucracy without a soul and there is an alternative to this. Thanks to the emergence of conservative talk-radio and blogs, sorely needed alternatives to the dominance of America's left-leaning mainstream media, there is now a large and growing dialogue of ideas between Republicans. We are interested in having a discussion with the left and defeating them with our ideas—as soon as they form an ideology, we're all ears.

Geoffrey Buscher
Seattle

An author's reading

SIR – Your review of my "The Dragons of Expectation" has some nice things to say, except that it puts me on record as convicting C.P. Snow, Simone de Beauvoir and John Kenneth Galbraith of "crypto-Stalinism" ("Bones of contention", December 3rd). I can hardly let that stand. Actual reading will show that I argue with Snow's openly muddle-headed pro-Sovietism and de Beauvoir's complete and open pro-Maoism, but although I disagree with Galbraith's "convergence" theory I do not charge him with Stalinism, crypto- or otherwise. Moreover, I do praise liberals and Social Democrats: Clement Attlee, Ernest Bevin, Vaclav Havel, Daniel Patrick Moynihan and even Mikhail Gorbachev. I tend to side with George Orwell and his rebuke of "renegade liberals". Surely you would agree that, like cholesterol, liberals come in two varieties: the good and the bad. And, as your review notes, there are bad conservatives too.

Robert Conquest
Stanford, California

Labour incentives

SIR – Regarding your article on George Bush's immigration plan, of course locals will not do a physically demanding job for a fraction of what they can earn doing something else ("Come hither", December 3rd). Just as surely, if migrant workers were to vanish, the hourly wage for menial work would quickly rise until enough Americans found the offer sufficiently attractive. Crops would be harvested and nursing homes cleaned—it would just cost more. If avoiding higher prices is the primary justification for "guest-workers", saying so would at least make the proposal more credible than the circular economic logic the Bush administration currently cites.

Chris Hansen
Shorewood, Wisconsin

Going for gold

SIR – So gold has an "enduring capacity to disappoint" ("The little yellow god", December 3rd). Yet for centuries there has been little to touch it as a store of value. In the days of the Roman empire one could dress well with an ounce of gold—and one can do so today. Gold may be "fundamentally unattractive", but at least it is a finite commodity. If only the same thing could be said about fiat currencies backed by nothing more substantial than the promises of politicians and the hubris of central bankers.

Tim Price
Senior investment strategist
Ansbacher & Co
London

Brussels spouts

SIR – I must be dreaming—are you really suggesting that Europe's limited power in the world economy is due to the failure of European Union governments to distribute power among themselves (Charlemagne, December 10th)? You actually cite monetary and trade policies as areas where EU governments have actually achieved a modicum of success. And these are issues on which EU members have agreed to sacrifice national authority in favour of supranational institutions. Does it follow that more power should be given to these institutions? According to your standards this is a revolution. Is *The Economist* turning integrationist after all?

Georgios Antoniou
Brussels

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The poor

The mountain man and the surgeon

Dec 20th 2005 | HAZARD, KENTUCKY AND KINSHASA, DEMOCRATIC REPUBLIC OF CONGO
From The Economist print edition

Corbis

Reflections on relative poverty in North America and Africa

ENOS BANKS tells a cracking yarn about ketchup. One day, he spilled a splurge of it on his shirt. For fun, he persuaded his brother in law to shout angrily and shoot through the window. When their two wives came rushing in, they saw Mr Banks lying there covered in what looked like blood. "My wife passed out," chuckles Mr Banks, "and my brother-in-law's wife shook him till his [false] teeth rattled."

Mr Banks lives in a trailer in eastern Kentucky, amid the majestically forested Appalachian mountains. He is in his early 60s and has no job—he used to work as a driver for a coal-mining firm, but left after a heart attack 25 years ago. He wears a cowboy hat and talks with an accent that outsiders find nearly impenetrable. He is clever with his hands. When the price of petrol soared this year, he grafted a chainsaw engine onto a bicycle to make a moped.

He is a loud, jovial man, but suspicious of the young folk who live nearby. There is a drug problem in the mountains, and Mr Banks was recently burgled for the painkillers he takes for a bad back, hip and ankle. But he is ready for any mugger. He walks with a walking-stick-cum-rifle, with a plastic cap on the end of the barrel to keep out the dirt. If someone attacks him, he is ready to "shoot them plumb between the eyes." And if he runs out of bullets, he has a big knife strapped to the contraption with duct tape.

When Americans hear the words "poor" and "white", they think of someone like Mr Banks. He has half a dozen cars in varying states of disrepair parked outside his trailer, car-parts everywhere and a pile of crushed Pepsi cans below his porch.

He "draws" $521 a month in supplemental security income (a form of cash assistance for the elderly, poor and disabled). He laments that the authorities deduct $67 a month because he won $3,600 on the slot machines. Why, he asks, won't they take account of all the money he has lost gambling? It is a fair question. If middle-class America had this problem, accountants would surely find a way round it. Mr Banks also complains that he cannot draw food stamps. In order to qualify, he would have to sell his truck, which he cannot bear to part with. Mr Banks would probably be surprised to hear that, thousands of miles away in central Africa, there lives a prominent surgeon whose monthly income is roughly the same as his. Mbwebwe Kabamba is the head of the emergency department at the main public hospital in Kinshasa, the capital of the Democratic Republic of Congo. After 28 years as a doctor, his salary is only $250 a month, but by operating on private patients after hours, he ekes it out to

$600 or $700.

Given the lower cost of living in Congo, one might guess that Dr Kabamba is better off than Mr Banks. But the doctor has to support an extended family of 12, whereas Mr Banks's ex-wife and three sons claim public assistance. Indeed, the reason Mr Banks split up from his wife, he says, is because they can draw more benefits separately. She still lives in the trailer next door.

Why juxtapose the lives of a poor man in a rich country and a relatively well-off man in a poor one? The exercise is useful for two reasons. First, it puts the rich world's wealth into context. A Congolese doctor, a man most other Congolese would consider wealthy, is worse off materially than most poor people in America. That, in itself, is striking.

The second purpose of the exercise is to shed light on some ticklish questions. What is the relationship between wealth and happiness? And what is the significance of relative poverty? Mr Banks makes $521 a month in a country where median male earnings are $3,400 a month. Dr Kabamba earns $600 a month in a country where most people grow their own food and hardly ever see a bank note. The two men's experiences could hardly be less similar. But which of the two would one expect to be happier?

Before trying to grapple with these questions, take a look at the places where the two men live. Eastern Kentucky was where President Lyndon Johnson stood by a shack in 1964 to launch a "national war on poverty". Since then, Appalachia has had tons of government cash and seen real improvements in living standards, but it retains large and stubborn pockets of distress. Mr Banks lives in one. His trailer stands in a hollow near a disused coal mine in Perry county, where the official poverty rate is 24.5%.

The region is poor partly because it is remote. Steep slopes and heavy rain can make it hard to get around. Julie Zimmerman, a professor of sociology at the University of Kentucky, notes that Appalachian folk sometimes make appointments with the proviso that "I'll be there, God willing and the creek don't rise."

Another problem is that the region's mineral wealth has corrupted local politics. For decades, argues Mil Duncan, another of the many sociologists to have pondered Appalachian poverty, coal bosses exerted an unhealthy influence, and politicians won support through patronage. The 13 coal-producing counties of eastern Kentucky have consistently worse poverty than the others, notes Justin Maxson, director of the Mountain Association for Community Economic Development, a local microfinance group. "Corruption by public officials has been a significant contributor to poverty in the region," he adds.

Getty Images

Congo is also remote, and its politics have also been corrupted by mineral wealth. But corruption in Kentucky consists of mining firms leaning on local officials to go easy on environmental regulations, or school boards appointing their members' relatives to sinecures. In Congo, it means half a dozen armies and dozens of militia groups fighting over the country's gold and diamond mines between 1998 and 2003, leaving perhaps 3m dead.

Sporadic fighting continues in the east of the country, but this does not directly affect Dr Kabamba, who lives in the west. Still, the soldiers in Kinshasa, where he works, are a menace, because they rob civilians to supplement their wages. Dr Kabamba is shaken down about twice a month by men in uniform.

Dr Kabamba's hospital is healthier than it was during the war, or under Mobutu Sese Seko, the leopardskin-hatted crook who ruled Congo until his overthrow in 1997. There are no medicines unless patients can pay for them, and many of the sick lie huddled on the ground. But it used to be worse. In the early 1990s, patients who could not pay were sometimes held hostage for weeks until their families found cash to free them.

Dr Kabamba's income fluctuates with his country's fortunes. His $250-a-month salary is a fivefold increase from last year, and the fact that it is paid only two months in arrears is an improvement too. The cause of his good fortune is that Congo was given a huge debt write-off when the civil war ended in 2003, so there is more money around. What do Dr Kabamba's wages buy? He has a four-bedroom house with a kitchen and living room, which would be ample if there weren't 12 people under his roof. His home would be deemed unacceptably overcrowded in America. Even among the 37m Americans officially classed as poor, only 6% live in homes with more occupants than rooms.

Having seen how doctors live elsewhere, Dr Kabamba would quite like running water and a regular power supply. His family fetches water in jars and the electricity comes on maybe twice a week. Air-conditioning would be nice, but "that's only for VIPs," says Dr Kabamba. In America, three-quarters of poor households have air-conditioning.

Dr Kabamba earns enough to feed his children, but not as well as he would like. The family eats meat about twice a month; Dr Kabamba calls it "a great luxury". In America, poor children eat more meat than the well-to-do. In fact, they get twice as much protein as their government says is good for them, which is why the Wal-Mart near Mr Banks sells such enormous jeans.

"Poverty" describes two quite different phenomena: utter penury, of the sort experienced by the billion or so souls who subsist on $1 a day or less; and the situation of people in rich countries who are less well off than their compatriots.

For the first group, finding enough to eat is a daily struggle, and a $2-a-day job hand-washing mineral ore in a river is a lucky break. Shortly before meeting Dr Kabamba, your correspondent interviewed a group of Congolese ore-washers who were delighted to have found such lucrative work.

European countries tend to use relative measures of poverty. A household with an income less than 50% or 60% of the national median counts as poor. This has the perverse result that if the country gets richer, the poverty rate can still rise, as long as incomes at the top and in the middle rise faster than those at the bottom.

America, more sensibly, uses an absolute standard. The "poverty threshold", created in the mid-1960s, was based on an estimate of how much an adequate diet might cost, multiplied by three. This figure is adjusted for inflation each year, but is otherwise unchanged. So the fact that, according to the Census Bureau, the share of Americans in poverty rose between 1974 and 2004, from 11.2% to 12.7%, ought to be a cause for shame.

But it is not, because American poverty statistics are misleading. For one thing, the poor rarely stay that way. In 1996-99, only 2% of Americans were poor every month over the full four-year period. And life appears, by most measures, to have improved. Poor people today live longer, spend longer in education and are more likely to have jobs. Fewer live in substandard houses, more have cars, fridges, boomboxes and other necessities that were luxuries a couple of generations ago.

How, then, to account for the apparent rise in poverty? It is partly a matter of definition. Some non-cash benefits, such as food stamps, housing assistance and Medicaid, are excluded from the calculation. And the raw data must be wrong. Nicholas Eberstadt of the American Enterprise Institute, a conservative think-tank, notes that while reported annual income for the poorest fifth of households in 2003 was $8,201, their reported expenditure was $18,492. Nobody can explain this vast discrepancy.

All one can say is that whereas the poor in Kinshasa complain about the price of bread, the poor in Kentucky complain about the price of motor insurance. Fair enough—they need to drive to work.

Granted, the poor in America do not starve. But their relative poverty can hurt in other ways. To be poor in a meritocracy implies failure. Eastern Kentucky is one of America's least meritocratic enclaves, but failure still carries a stigma. Though few Americans say that the poor have only themselves to blame, many believe it. Many of the poor believe it, too.

For a Congolese peasant, there is no shame in living in a hut made of sticks. Everyone you know does too. In America, by contrast, the term "trailer" denotes more than a mobile home, and the people who live in one know it. They are also acutely aware of how richer folk live, because they watch so much television. A typical poor household in America has two televisions, cable or satellite reception and a VCR or a DVD player.

Dr Kabamba, though hard up, enjoys the respect that doctors receive in all societies. Perhaps more, for people can see that he does an essential job under the toughest of conditions. That his hospital still functions despite years of war, corruption, economic decline and the occasional "*grand pillage*" by unpaid soldiers is, he sighs, "almost a miracle". His compatriots might add that it is almost a miracle that Dr Kabamba, whose skills would allow him to emigrate, has chosen not to.

Those who know Dr Kabamba treat him with deference. When your correspondent was detained by the police outside his hospital, for the crime of appearing to possess a wallet, one telephone call to the doctor was enough to fix the problem. The officers even apologised.

Mr Banks, by contrast, though outwardly cheery, has no illusions about how other Americans see people like himself. Of the officials who hand him his monthly cheque, he says: "Some are okay, but some act like the

money's coming out of their own pockets." His great-niece, Rosie Woolum, tells a story about growing up in the hollows. She was the girl on the school cheerleading team who could not afford shoes. A teacher who lived nearby could have offered her a lift home after practice, she says, but never did. So she had to wait a couple of hours for her mother. At the time, she did not understand why her better-off neighbours shunned her. Now that she has a good job (running a project that provides health care for the homeless), she finds they no longer do.

It is hard to guage the pain of relative poverty because no one knows how to measure happiness. Simply asking people "Are you happy?" only gets you so far. The answers people give depend in part on cultural factors. Few English or Japanese will offer anything more ecstatic than a "mustn't grumble", but that does not necessarily mean they are glummer than say, Americans, 86% of whom told Gallup this year that they were "completely" or "somewhat satisfied" with their jobs.

Indirect evidence of unhappiness is equally hard to gather, since so many potential proxies, such as drug abuse and wife-beating, are hushed up. Nonetheless, for what it is worth, when your correspondent asked Ms Woolum and three of her local social-worker colleagues to share their life stories, those stories shared a common thread.

AP

All four women had been beaten by husbands or boyfriends, most of whom had problems with drink or drugs. One recalls being knelt on so that her arms were pinned to the floor and punched repeatedly in the face. Another says she was stabbed. Without excusing the abuse, the women assume that it had something to do with their menfolk's sense of frustration at the poor hand life had dealt them. As the last of the quartet puts it: "He wasn't happy. We got hit."

Happily, all four have escaped their abusers. Ms Woolum reckons that the welfare reforms of the 1990s have, indirectly, made local women more assertive. "Welfare is more demanding. [To receive it], women have to get out and work, so we're getting out into a different environment." This, she argues, fosters self-reliance and self-respect, so "Women don't take it as much now."

The personal is political

Both Dr Kabamba and Mr Banks feel bitter about the state of politics in their respective countries. Dr Kabamba resents the fact that Congo is run by a mob of unelected thieves and warlords, who for the most part only pretend to care about good governance so they can continue milking western donors. The country was promised an election by June this year, but the ruling class somehow never got around to organising it. They now promise to have one next year—they held a constitutional referendum this month—but Dr Kabamba is not holding his breath. He takes such a dim view of the probity of Congolese politicians that he once turned down a job in the cabinet. In his spare time, he is the leader of one of Congo's many opposition parties, but no one is tipping him to be the next president. He is neither rich nor ruthless enough.

Mr Banks, for his part, expresses an intense dislike of President George Bush. "If someone shoots that sonofabitch, I'll celebrate," he says. Some of his complaints echo those of the coastal intelligentsia—he thinks the president should create more manufacturing jobs, for example. But some of his gripes are of the sort rarely aired in the *New York Time*s.

For example, he berates Mr Bush for allowing too many foreign doctors into the country. In eastern Kentucky, as in

Congo, those with marketable skills often leave as soon as they graduate. Unlike Congo, however, Kentucky can attract doctors from poorer parts of the world, such as South Asia. Mr Banks does not think much of these immigrant medics. He fears they may give him the wrong medicine, perhaps deliberately, and threatens to "shoot them plumb between the eyes" if they try. He is not serious about this threat, one assumes, but his sense of grievance is no less real for being incoherent.

The point of this article is neither to mock Mr Banks nor to praise Dr Kabamba. Both have their virtues and flaws, and your correspondent cannot reliably judge which is the happier. But here are two concluding observations. First, if poor Americans were to compare their standard of living with what is normal elsewhere in the world, let alone in Congo, they would see they have little cause for discontent. Then again, were Americans not so incurably discontented with their lot, their great country would not be half as dynamic as it is.

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The story of wheat

Ears of plenty

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From The Economist print edition

The story of man's staple food

Still Pictures

IN 10,000 years, the earth's population has doubled ten times, from less than 10m to more than six billion now and ten billion soon. Most of the calories that made that increase possible have come from three plants: maize, rice and wheat. The oldest, most widespread and until recently biggest of the three crops is wheat (see chart). To a first approximation wheat is the staple food of mankind, and its history is that of humanity.

Yet today, wheat is losing its crown. The tonnage (though not the acreage) of maize harvested in the world began consistently to exceed that of wheat for the first time in 1998; rice followed suit in 1999. Genetic modification, which has transformed maize, rice and soyabeans, has largely passed wheat by—to such an extent that it is in danger of becoming an "orphan crop". The Atkins diet and a fashion for gluten allergies have made wheat seem less wholesome. And with population growth rates falling sharply while yields continue to rise, even the acreage devoted to wheat may now begin to decline for the first time since the stone age.

It is time to pay tribute to this strange little grass that has done so much for the human race. Strange is the word, for wheat is a genetic monster. A typical wheat variety is hexaploid—it has six copies of each gene, where most creatures have two. Its 21 chromosomes contain a massive 16 billion base pairs of DNA, 40 times as much as rice, six times as much as maize and five times as much as people. It is derived from three wild ancestral species in two separate mergers. The first took place in the Levant 10,000 years ago, the second near the Caspian Sea 2,000 years later. The result was a plant with extra-large seeds incapable of dispersal in the wild, dependent entirely on people to sow them.

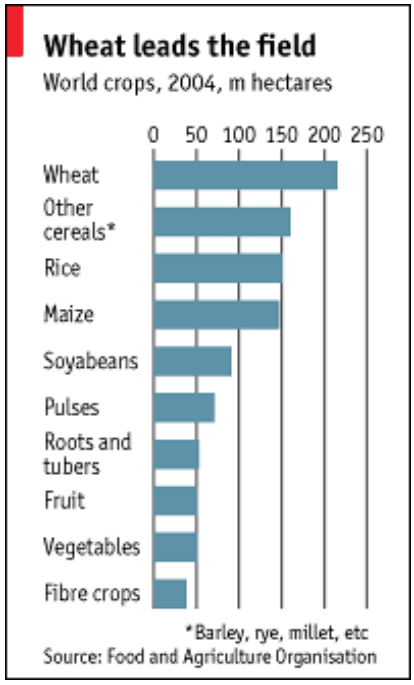
The story actually starts much earlier, around 12,000 years ago. At the time, after several warm millennia, a melting ice sheet in North America collapsed and a gigantic lake drained into the North Atlantic through the St Lawrence seaway. The torrent of cool, fresh water altered the climate so drastically that the ice age, which had been in full retreat, resumed for a further 11 centuries. The Scandinavian ice sheet surged south. Western Asia became not only cooler, but much drier. The Black Sea all but dried out.

People in what is now Syria had been subsisting happily on a diet of acorns, gazelles and grass seeds. The centuries of drought drove them to depend increasingly on wild grass seeds. Abruptly, soon after 11,000 years ago, they began to cultivate rye and chickpeas, then einkorn and emmer, two ancestors of wheat, and later barley. Soon cultivated grain was their staple food. It happened first in the Karacadag Mountains in south-eastern Turkey—it is only here that wild einkorn grass contains the identical genetic fingerprint of modern domesticated wheat.

Who first replanted the seeds and why? For a start, he was probably a she: women have primary responsibilities for plant gathering in hunter-gatherer societies. The time was certainly ripe for agriculture: the ability to make tools and control fire (cooking makes many plants more digestible) was already well established. But was it an act

of inspiration or desperation? Did it perhaps happen by accident, as discarded grains germinated around human settlements?

The wheat plant evolved three new traits to suit its new servants: the seeds grew larger; the "rachis" which binds the seeds together became less brittle so whole ears of grass, rather than individual seeds, could be gathered; and the leaf-like glumes that covered each seed loosened, thus making the grains "free-threshing". In the past two years, the very mutations that allowed these changes have been located within the wheat plant's genome.



Wheat's servants now became its slaves. Agriculture brought drudgery, subjugation and malnutrition, because unlike hunter-gatherers, farmers could eke out a living when times were bad. But at least that meant that they could survive. Population growth was now inevitable. Within a few generations, wheat farmers were on the march, displacing and overwhelming hunter-gatherers as they went, and bringing with them their distinct Indo-European language, of which Sanskrit and Irish are both descendants. By 5,000 years ago wheat had reached Ireland, Spain, Ethiopia and India. A millennium later it reached China: paddy rice was still thousands of years in the future.

Wherever they went, the farmers brought their habits: not just sowing, reaping and threshing, but baking, fermenting, owning, hoarding. By 9,000 years ago they had domesticated cattle, to which they could feed wheat to get meat and milk. They could also get precious manure to fertilise the fields. Not until 6,000 years ago did somebody invent the first plough to turn the earth, burying weeds and breaking up the seedbed.

GM was invented in 1983 as a gentler, safer, and more predictable alternative to mutation breeding

Innovations came slowly in wheat farming. The horse collar arrived in the third century BC, in China. By not pressing on the animal's windpipe, it enabled the animal to drag greater weight—and faster than an ox. In 1701 AD the Berkshire farmer Jethro Tull devised a simple seed drill based on organ pipes, which resulted in eight times as many grains harvested for every grain sown. Like most agricultural innovators since, he was vilified. A century later the threshing machine was greeted by riots.

In 1815 a gigantic volcanic eruption at Tambora in Indonesia led to the famous "year without a summer". New England had frosts in July. France had bitter cold in August. Wheat prices reached a level that would never be seen again in real terms, nearly $3 a bushel. Thomas Robert Malthus was then at the height of his fame and the harvest failure seemed to bear out his pessimism. In 1798 he had forecast a population crash, based on the calculation that it was impossible to improve wheat yields as fast as people made babies (each new baby can make more babies; each new field of grain leaves less new land to cultivate).

The Malthusian crash was staved off in the 19th century by bringing more land under the plough—in North America, Argentina and Australia especially. But wheat yields per acre grew worse if anything as soil nutrients were depleted. So in 1898, in a speech to the British Association, a chemist, Sir William Crookes, argued again that worldwide starvation was inevitable within a generation. Population was rising fast. There was little new land to plough. Famines became worse each season, especially in Asia.

This time it was the tractor that averted Malthusian disaster. The first tractors had few advantages over the best horses, but they did not eat hay or oats. The replacement of draft animals by machines released about 25% more land for growing food for human consumption.

The Malthusian limit would surely be reached one day, though. The only way to increase yield was to find a way of supplying extra nitrogen, phosphorus and potassium to the soil. Neither a break crop of legumes, nor manure was

the answer, since both demanded precious acres to produce. The search for fertiliser took unexpected turns. British entrepreneurs scoured the old battlefields of Europe searching for phosphorus-rich bones. In about 1830 a magic ingredient was found: guano. On the dry seabird islands off the South American and South African coasts, immense deposits of bird droppings, rich in nitrogen and phosphorus, had accumulated over centuries. Guano mining became a profitable business, and a grim one. Off South-West Africa, the discovery in 1843 of the tiny island of Ichaboe, covered in 25 feet of penguin and gannet excrement, led to a guano rush followed by a mutiny and battles. By 1850, Ichaboe, minus 800,000 tonnes of guano, was deserted again.

Between 1840 and 1880, guano nitrogen made a vast difference to European agriculture. But soon the best deposits were exhausted. In the dry uplands of Chile, rich mineral nitrate deposits were then found, and gradually took the place of guano in the late 19th century. The nitrate mines fuelled Chile's economy and fertilised Europe's farms.

On July 2nd 1909, with the help of an engineer named Carl Bosch from the BASF company, Fritz Haber succeeded in combining nitrogen (from the air) with hydrogen (from coal) to make ammonia. In a few short years, BASF had scaled up the process to factory size and the sky could be mined for nitrogen. Today nearly half the nitrogen atoms in the proteins of an average human being's body came at some time or another through an ammonia factory. In the short term, though, Haber merely saved the German war effort as it was on the brink of running out of nitrogen explosives in 1914, cut off from Chilean nitrates. He went on to make lethal gas for chemical warfare and genocide.

On farms, Haber nitrogen ran into much the same revulsion as had greeted the seed drill. For many farmers, the goodness of manure could not be reduced to a white powder. Fertiliser must in some sense be alive. Haber nitrogen was not used as fertiliser in large quantities until the middle of the 20th century, and for a good reason. If you put extra nitrogen on wheat, the crop grew taller and thicker than usual, fell over in the wind and rotted. On General Douglas MacArthur's team in Japan at the end of the second world war a wheat expert named Cecil Salmon collected 16 varieties of wheat including one called "Norin 10", which grew just two feet tall, instead of the usual four. Salmon sent it back to a scientist named Orville Vogel in Oregon in 1949. Vogel began crossing Norin 10 with other wheats to make new short-strawed varieties.

In 1952 news of Vogel's wheat filtered down to a remote research station in Mexico, where a man named Norman Borlaug was breeding fungus-resistant wheat for a project funded by the Rockefeller Foundation. Borlaug took some Norin, and Norin-Brevor hybrid, seeds to Mexico and began to grow new crosses. Within a few short years he had produced wheat that yielded three times as much as before. By 1963 95% of Mexico's wheat was Borlaug's variety, and the country's wheat harvest was six times what it had been when Borlaug set foot in the country.

In 1961 Borlaug was invited to visit India by M. S. Swaminathan, adviser to the Indian minister of agriculture. India was on the brink of mass famine. Huge shipments of food aid from America were all that stood between its swelling population and a terrible fate. One or two people were starting to say the unsayable. After an epiphany in a taxi in a crowded Delhi street, the environmentalist Paul Ehrlich wrote a best-seller arguing that the world had "too many people". Not only could America not save India; it should not save India. Mass starvation was inevitable, and not just for India, but for the world.

No need to starve

Borlaug refused to be so pessimistic. He arrived in India in March 1963 and began testing three new varieties of Mexican wheat. The yields were four or five times better than Indian varieties. In 1965, after overcoming much bureaucratic opposition, Swaminathan persuaded his government to order 18,000 tonnes of Borlaug's seed. Borlaug loaded 35 trucks in Mexico and sent them north to Los Angeles. The convoy was held up by the Mexican police, stopped at the border by United States officials and then held up by the National Guard when the Watts

riots prevented them reaching the port. Then, as the shipment eventually sailed, war broke out between India and Pakistan.

Natural-born mutants

As it happened, the war proved a godsend, because the state grain monopolies lost their power to block the spread of Borlaug's wheat. Eager farmers took it up with astonishing results. By 1974, India's wheat production had tripled and India was self-sufficient in food; it has never faced a famine since. In 1970 Norman Borlaug was awarded the Nobel Peace Prize for firing the first shot in what came to be called the "green revolution".

Borlaug had used natural mutants; soon his successors were bringing on mutations artificially. In 1956, a sample of a barley variety called Maythorpe was irradiated at Britain's Atomic Energy Research Establishment . The result was a strain with stiffer, shorter straw but the same early harvest and malting qualities, which would eventually reach the market as "Golden Promise".

Today scientists use thermal neutrons, X-rays, or ethyl methane sulphonate, a harsh carcinogenic chemical—anything that will damage DNA—to generate mutant cereals. Virtually every variety of wheat and barley you see growing in the field was produced by this kind of "mutation breeding". No safety tests are done; nobody protests. The irony is that genetic modification (GM) was invented in 1983 as a gentler, safer, more rational and more predictable alternative to mutation breeding—an organic technology, in fact. Instead of random mutations, scientists could now add the traits they wanted.

Still Pictures

In 2004 200m acres of GM crops were grown worldwide with good effects on yield (up), pesticide use (down), biodiversity (up) and cost (down). There has not been a single human health problem. Yet, far from being welcomed as a greener green revolution, genetic modification soon ran into fierce opposition from the environmental movement. Around 1998, a century after Crookes and two centuries after Malthus, green pressure groups began picking up public disquiet about GM and rushed the issue to the top of their agendas, where it quickly brought them the attention and funds they crave.

Wheat, because of its unwieldy hexaploid genome, has largely missed out on the GM revolution, as maize and rice accelerate into world leadership. The first GM wheats have only recently been approved for use, their principal advantage to the farmer being so-called "no till" cultivation—the planting of seed directly into untilled soil saves fuel and topsoil.

Soon after Norman Borlaug went to India in 1963, a remarkable thing began to happen. The world population growth rate, in percentage terms, had been climbing steadily since the second world war (bar a two-year drop in 1959-60 caused by Mao Xedong). But in the mid 1960s it stopped rising. And by 1974 it was falling significantly. The number of people added each year kept on rising for a while, but even that peaked in 1989, and then began falling steadily. Population was still growing, but it was adding a smaller and smaller number each year.

Demographers, who had been watching the exponential rise with alarm, now forecast that the population will peak below ten billion—ten gigapeople—not long after 2050. Such a low forecast would have been unthinkable just two decades ago. Already, in developing countries, the number of children born per woman has fallen from six to three in 50 years. It will have reached replacement-level fertility (where deaths equal births) by 2035.

This is an extraordinary development, unexpected, undeserved—and apparently unnatural. Human beings may be the only creatures that have fewer babies when they are better fed. The fastest-growing populations in the world over the next 50 years will be those of Burkina Faso, Mali, Niger, Somalia, Uganda and Yemen. All except in Yemen are in Africa. All are hungry. All remain untouched by Borlaug's green Revolution: all depend on primarily organic agriculture.

In 10,000 years the population has doubled at least ten times. Yet suddenly the doubling has ceased. It will never double again. The end of humanity's population boom will happen in the lifetimes of people alive today. It is the moment when Malthus was wrong for the last time.

Of course feeding ten billion will not be trivial. It will require at least 35% more calories than the world's farmers grow today, probably much more if a growing proportion of those ten billion are to have meat more than once a month. (It takes ten calories of wheat to produce one calorie of meat.) That will mean either better yields or less rainforest—which is why fertilisers, pesticides and transgenes are the best possible protectors of the planet. The story of wheat is not finished yet.

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Pranks: a competition

From Hermes to bonsai kittens

Dec 20th 2005
From The Economist print edition

Mike Kai

What makes a jape great?

AS A pupil at a minor English boarding school, one of the rituals your correspondent dreaded most was morning chapel: 600 boys and a dozen berobed "masters" crammed into a cold, dim chamber for ten minutes of dreary hymns and prayers. Until, that is, one morning, the solemn atmosphere was shattered by an unforgettable act of comic bravado. Seconds after the headmaster—known as the Head Horse on account of his equine features—took his seat, a giant white sheet rolled down over the arched entrance. On it was a caricature of a grinning horse wearing a mortar-board. Lord, how we laughed.

The perpetrators' identities did not stay secret for long—what schoolboy could resist boasting of such a jape? The rolled-up sheet had been held in place by thread that was tied to the switch for the headmaster's reading light so tautly that when he turned it on, the thread snapped and the caricature was unfurled. The Head Horse had been forced to humiliate himself. Even he had to admit it was ingenious.

Abbie Hoffman, a 1960s radical-cum-trickster, said most pranks fell into one of three categories: "good" pranks were amusingly satirical, "bad" ones gratuitously vindictive, and "neutral" ones surreal and soft on the victim (if there was one). An example of the first is the time Mr Hoffman and his fellow "Yippies" showered the floor of the New York Stock Exchange with dollar bills in 1967, thereby managing to stop the tickertape for six minutes while traders scrambled to pick up the notes. For a taste of the second, go to any college fraternity initiation. Examples of the third are many and delicious. A master of the art in the early 20th century was Horace de Vere Cole, an inveterate British prankster. Cole bore a striking resemblance to the then leader of the Labour Party, Ramsay MacDonald, and one of his favourite japes was to appear at Labour rallies posing as MacDonald, stride on stage to rapturous applause, and denounce everything the party stood for.

Priceless or puerile? There's the rub, for one man's brilliant prank is another's mindless stunt. Most would agree that the best pranks offer more than just deception, mischievousness or ridicule, and that much of the genre dished up on television now—the mutant progeny of shows like "Candid Camera"—falls well short of the mark. But what is that special ingredient? Elaborateness or simplicity? Satirical bite or surrealism? Irony or bluntness? Even dictionaries seem unsure how to define "prank" (*orig. unk.*): it is, by turns, a malicious trick, a conjuring act performed to deceive or surprise, a mischievous frolic, and more.

Homeric humour

If the prank is one of the more elusive arrows in the comedic quiver, it is also one of the oldest. The Homeric world is full of them. Hermes, for instance, was "full of tricks—a bringer of dreams". He played his first when only a day old, stealing a herd of cattle belonging to his brother, Apollo, and driving them into a cave backwards to suggest that they had left instead of entered. So beguiling were his tricks that Zeus "laughed out loud to see his mischievous child".

Pranks were a feature of ancient seasonal festivals. During Saturnalia, a Roman winter celebration, participants would dance, drink and play jokes on each other; slaves pretended to rule their masters, and a mock king, the Lord of Misrule, reigned for a day. Later, court jesters took advantage of a similar inversion of roles, playing tricks on kings and courtiers. Medieval magicians and tricksters had their own bible, the 14th century "Secretum Philosophorum" (which taught, for instance, how to turn water into wine by soaking pieces of bread in dark wine, drying them in the sun, and dropping them into the jug when no one was looking).

The best pranks have always blurred the lines between legality and illegality, good and bad taste, right and wrong conduct. Festivals like Saturnalia appeared to undermine the social order, but paradoxically helped to reaffirm it, by allowing people to act out their frustrations in a harmless way. The nearest thing to this today is April Fool's Day —"the day we remember what we are the other 364 days of the year," as Mark Twain gently put it—though the best April 1st jokes tend to be media hoaxes, rather than traditional pranks. A classic of the genre is a 1957 BBC "documentary" on Swiss spaghetti farmers. Many British viewers asked where they could buy pasta trees.

Some of the best April Fool's stunts are those that send up national characteristics. To prove the point that Germans who break even minor rules struggle with their guilt, a few years back a newspaper in Tübingen announced a new experiment by the traffic authorities. Local drivers who had knowingly exceeded the speed limit in recent days were to turn themselves in, pay a fine and take lessons in safe driving. More than 60 sinners obliged.

Sportive students

For the most impressively elaborate pranks, however, go to a university campus. Take thousands of bright young things with too much time on their hands, itching to achieve, amuse and misbehave, and splendid acts of delinquency will follow.

The best colleges strive to out-prank one another. Students at Yale scored a big victory during last year's football match against Harvard when they passed out pieces of paper to thousands of fans on the Harvard side of the stadium. The fans were told that, when held up, the bits would spell "Go Harvard". In fact they spelled something else (see photo that opened this article).

At Harvard's neighbour, the Massachusetts Institute of Technology, "hacks", as the MIT crowd calls them, are more serious. So serious, in fact, that in 2003 the institute's best hacks were assembled in a 178-page book, "Nightwork". The pranks at MIT tend to be feats of engineering. They are positively encouraged, because they teach students to work in teams, solve complex problems and, sometimes, get a message across. Mr Peterson's book includes an 11-point code for pranksters: leave no damage, do not steal, do not drop things off a building without a ground crew, and so on. In Cambridge, Massachusetts, at least, student pranks have become an establishment activity.

Getty Images

The dean of the college from which it was launched sent the ringleader a case of champagne

But the scene of what many consider the best-ever engineering prank was that other academic Cambridge, in England, where, one morning in 1958, the town awoke to see an Austin Seven van on top of the Senate House building. After weeks of preparation, a group of mechanical-sciences undergraduates had pushed the van, wheelbarrow-like, minus its doors and back wheels, into place, then hoisted it using a derrick of five 24-foot scaffolding poles, 250 feet of steel wire, 200 feet of hemp rope, pulley blocks and hooks, planks, and even sacking to protect the building. Once the vehicle had been dragged to the top of the sloping roof, the doors and wheels were re-fitted.

The world's media rightly applauded the prank. It was breathtakingly ambitious, requiring both brains and brawn in prodigious quantities; the planning was meticulous (the dozen or so students involved were split into sub-teams, including one comprising two pretty females to distract curious passers-by); and it created a spectacularly surreal sight that could be seen across town. The perpetrators were particularly pleased that what took them under three hours to do took the Civil Defence Force four days to undo. The dean of the college from which the prank was launched sent the ringleader a case of champagne.

While students generally prank for fun or pride, another breed does it for political ends. Anti-corporate pranking took off in the 1960s, as giant corporations began to be feared as much as nuclear weapons. Hoffman's Yippies blazed the trail, engaging in playful political theatre against big business as well as politicians. Their modern-day heirs are the likes of RTMARK and the Yes Men. RTMARK is a sort of online brokerage bringing together "investors" who give time and money for anti-corporate stunts. The Yes Men fancy themselves as satirical guerrillas. A favoured tactic is to pose as spokesmen for big companies: one Yes Man infiltrated a banking conference, at which he unveiled an "Acceptable Risk Calculator" that helped companies to work out the point at which deaths linked to their products began cutting into their profits. Several delegates asked for more information.

Another popular target of such groups is the media. To many, the master media-hoaxer is Alan Abel, who over the years has passed himself off as Howard Hughes, faked his own death (the *New York Times* published an obituary) and, when Idi Amin was on the run from Uganda, lured the press into covering a wedding ceremony in which the former dictator apparently married an American woman to secure citizenship. Mr Abel's tip: strut your stuff on Sundays, when the gullible, junior reporters are on duty.

To some, pranking is a bit like drugs—good fun when you're young, but not something respectable adults do. Mr Abel, now in his 70s, belongs to a rare breed that considers it a lifetime's work. That his like are rare is perhaps for the best. When serious grown-ups try their hand at pranks, the result is often ham-fisted.

Corporate bosses are a case in point. In the go-go 1990s, larks became *de rigueur* in the executive suite. There has been less of this since boom turned to bust, though at a few firms, such as Sun Microsystems, "pranking the boss" is still ingrained. "It encourages employees to be innovative," a Sun spokeswoman earnestly explains. Occasionally, a big corporation gets it just right. In 1996, Taco Bell Corporation of America announced it had bought the Liberty Bell from the federal government and was renaming it the Taco Liberty Bell. Cue outrage across the country.

These days, the medium of choice for many tricksters is the internet. Spoof websites and bogus e-mails proliferate, and a cottage industry offers downloadable prank phone calls and the like. While the web has democratised the art, it has diluted it. Most of the stuff is crude—the online equivalent of the whoopee cushion. The Prank Institute, an online community "dedicated to the pranking sciences", has logged tens of thousands of decidedly variable quality. A glorious exception is the site that offers "bonsai kittens", reared in small jars, which outrages animal-lovers.

Ranking the pranking

Perhaps it was ever thus: many having a go, few producing anything genuinely funny and admirable. After all, nobody likes to think they have no jocular streak. Even Adolf Hitler claimed to have been a prankster in his youth. If so, he lost it spectacularly.

With that warning in mind, we invite readers to nominate their contender for the finest prank in history, explaining in 750 words why it deserves the title, to reach us by January 20th. The three best entries will be announced in February and published on Economist.com. Entries, please, to pranks@economist.com.

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Micronations

Castles in the air

Dec 20th 2005
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AFP

Starting your own country is no path to prosperity, but it remains popular

MONACO is a country that makes Iceland look huge: the tiny principality and its 32,000 residents would fit comfortably inside New York's Central Park. Katharine Hepburn aptly called the place a "pimple on the chin of the south of France". Were it not for the Vatican, this pimple would be the world's smallest independent state.

Tiny it may be, but for those who dream of founding their own country Monaco stands as an example of what cunning and tenacity can achieve. Seized in 1297 by a Genoan adventurer, Francesco Grimaldi, the rocky promontory has been transformed by his descendants into a principality that flaunts the trappings of a modern nation-state: it has its own flag, passports and stamps, and seats at the United Nations and the Council of Europe. Stroll around the place—past luxury yachts and manicured gardens—and the impression is one of contented prosperity.

Monaco's achievement has not gone unnoticed. Over the past half-century many people have tried to ape its success. Most of these stabs at nationhood have been frivolous and some crackpot. But a handful have been serious, and a few aspiring Poo-Bahs have won some autonomy for their fledgling states, albeit briefly. With the number of real countries increasing—30 have sprung to life since 1990 alone—some people think one of these "micronations" could eventually be accepted as a legitimate state.

Less than two centuries ago, new nations could still be staked out on *terra incognita*. Most of these mini-kingdoms, satrapies and private fiefdoms died along with the adventurers and sea-traders who founded them. But some survived into the 20th century. The Clunies-Ross family, who in 1827 settled the Cocos or Keeling Islands—a pair of isolated coral atolls in the Indian Ocean—held on to them until 1978 when a descendant ceded control to the Australian government.

With only a portion of Antarctica now lying unclaimed, recent nation-builders have had to think more creatively. Attempts at founding states in international waters were particularly popular in the 1960s and 1970s. The more hare-brained schemes involved cobbling together floating platforms. Leicester Hemingway (Ernest's younger brother) did just this off the west coast of Jamaica in 1964. Dubbed the Republic of New Atlantis, the platform was created to house a marine-research society and to help protect Jamaican fishing. Official recognition of the place never came, despite the minting of some stamps and an approach to Lyndon Johnson (America's president at the time). Scavenging fishermen and a big storm put an end to the project, so the younger Hemingway paddled off to

found another floating country, named Tierra del Mar, near the Bahamas.

Other aspiring rulers tried to make islands by sinking ships in shallow water or building on reefs and shoals. Few of these got beyond the drawing board, though the Republic of Minerva made enough progress to alarm the neighbours. The brainchild of a Las Vegas-based libertarian activist, Michael Oliver, the tiny republic was created in 1971 by dumping sand on the Minerva Reefs, which lie about 500km (310 miles) south-west of the South Pacific kingdom of Tonga. Independence was proclaimed the next year and a small tower constructed on the emerging island. But Tonga got wind of the project and dispatched a token occupying force that annexed the place—a claim later recognised by the South Pacific Forum. The sandy island sank beneath the waves soon afterwards.

Perhaps wisely, other budding rulers have followed Bangladesh's example and seceded. Most of these micro-revolts can be classed as publicity stunts, with little real intention of founding an independent state. Britain's best-known secessionist is a bookseller named Richard Booth, who in 1977 declared himself king—and his horse prime minister—of the Welsh village of Hay-on-Wye. This unusual step helped put Hay on the map as a "town of books". Today, it still accounts for a healthy trade in passports, government scrolls, car stickers and "official" titles.

Comedy also marked the short-lived Conch Republic which came into existence in 1982 when the American government, in a move to staunch drug-trafficking and illegal immigration, set up a roadblock on the highway connecting the Florida Keys to the mainland. By declaring war on America, then promptly surrendering and applying for $1 billion of foreign aid—a ploy borrowed from "The Mouse that Roared", a comedy starring Peter Sellers—the Republic's residents won public sympathy for their plight and the roadblock was removed. Even seceding half-heartedly, it seems, can have benefits.

If at first you don't secede . . .

The longest-running secessionist micronation is the Hutt River Province Principality in Western Australia. Nestling 595km north of Perth, it arose from a dispute in 1970 over wheat quotas. Leonard Casley, a farmer, took the unusual step of declaring his property independent and styled himself Prince Leonard I. Australia's government refuses to recognise Mr Casley's claim, but this has not deterred him or his subjects. The principality has issued over 200 types of coins and a few banknotes. By doling out passports to visitors, it also claims 13,000 overseas citizens and has foreign consuls in a smattering of countries. Earlier this year it extended an offer of assistance to the victims of Hurricane Katrina.

Other prospective rulers have delved into history for an anomaly or legal precedent on which to base their claims. Seborga, a village in the Italian Alps, traces its heritage to medieval times when it became a principality of the Holy Roman Empire. Subsequently omitted from a succession of treaties—including Italy's Act of Unification of 1861—its 350-odd residents today claim to live in a sovereign state. Like other micronations, Seborga mints its own currency (the Luigino), sells stamps and issues passports. The Italian government does not seem to mind, so long as the Seaborgans pay their taxes and respect Italian laws.

The Seborgans elect their prince, currently Giorgio I. On the other side of the world, the kingship of the tiny Caribbean island of Redonda—part of Antigua and Barbuda, itself one of the world's smallest countries—is disputed. The pretenders' claims stem from 1865 when Matthew Dowdy Shiell, a sea-trader, landed on the uninhabited island and declared it his kingdom, only for the British government—with an eye on its rich phosphate deposits—to annex the place. The title passed out of the Shiell family in 1947 and is contested by at least two groups who argue, not in all seriousness, for Redonda's independence. Foremost among them is a Spanish novelist, Javier Marìas, who has published books about Redonda and bestowed Redondan titles on luminaries including Francis Ford Coppola, Pedro Almodóvar and A.S. Byatt.

The Principality of Sealand was founded by a former British army major named Paddy Roy Bates

What many consider to be the world's most successful micronation exists thanks to a supposed legal loophole. Founded by a former British army major named Paddy Roy Bates in 1967, the Principality of Sealand occupies an abandoned anti-aircraft tower in the English Channel. "Prince Roy" asserts that because the tower was derelict and

lay outside British territorial waters when it was occupied, the British government has no claim. A handful of legal skirmishes have strengthened his hand. Although British territorial waters have been extended and now include Sealand—and the British government refuses to recognise its claim—the principality continues to exist unmolested.

But turning the place into a source of income has proved hard. Plans to enlarge the tennis-court-sized tower into a three-mile-long island with an airport and gambling complex fell through. So, more recently, did a deal to provide a secure, offshore web-hosting facility free of government interference.

Sealand's turbulent history stands as a warning to nation-builders. Having repelled attacks by rival pirate-radio operators, in 1978 the tower was temporarily captured by a German businessman intent on using the place as a tax haven. Crooks have forged its passports (one of which turned up in the investigation into Gianni Versace's murder in 1997), which prompted Sealand's rulers to revoke all 150,000 of them.

Virtual royalty

For this and other reasons most new countries now start online. How many such virtual states exist is impossible to say, but there are enough to have formed at least two supranational organisations. Most virtual countries are little more than exercises in fantasy or self-aggrandisement. Yet some boast a complexity and seriousness that belies their virtual nature. Best-known is the Kingdom of Talossa. Founded by a schoolboy, Robert Ben Madison, in 1979, Talossa migrated from his bedroom to the internet, where it now exists in the form of a number of rival websites. With its own language, government, written history, laws, constitution and citizens, Talossa looks surprisingly like a real place.

Could such a thing become a bona fide country? A few years ago Freedonia, an online principality with libertarian pretensions, apparently tried to acquire land in Somaliland. Other virtual states optimistically think that they will one day be recognised alongside real-world ones.

But what is so wonderful about the real world? Life for small countries is tough even if they do escape cyberspace. Unlike Monaco, most are recent creations with poorly developed economies, weak institutions and a large helping of social problems. A report on developing small states published earlier this year by the World Bank and the Commonwealth Secretariat found their problems had multiplied over the past five years.

Peel back the veneer and even Monaco loses its shine. Larger neighbours regard it as merely a haven for dodgy business dealings. And its professed independence is largely illusory. These days Monaco exercises its sovereignty "in accordance with the fundamental interests of the French Republic", and its French residents have been unable to evade the French taxman since 1963. When Monaco's new prince, Albert II, was enthroned on November 19th, the only head of state to attend was the president of Iceland. Sometimes it may be more dignified to stay within the cosy confines of the internet.

AFP

Time for Albert II to go online?

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French anti-Americanism

Spot the difference

Dec 20th 2005 | PARIS
From The Economist print edition

AP

France quarrels with America not because the pair are so different but because they are so alike

NESTLING in a valley near Aix-en-Provence, Plan de Campagne is a familiar French landscape. A strip of garish hoardings on stalks reaches into the distance. Le Plan Bowling, a 30-alley indoor centre, squats near the El Rancho Tex-Mex grill, a clay-coloured mock hacienda, complete with cactuses and sombreros. Two McDonald's fast-food joints rival Buffalo Grill, where *poulet Kentucky* and *assiette Texane* are served under a red roof topped with giant white buffalo horns. All this is ringed by vast parking lots, crammed with gas-guzzling 4X4s. Welcome to France, cradle of anti-Americanism.

Beyond the Romanesque churches and lavender fields of the tourist trail, France is changing. Slowly, its way of life is beginning to resemble that of the country it loves to hate. Over four-fifths of the French now live in towns or suburbs—more than in America. Less than 4% of the French workforce is in farming. French intellectuals and editorialists may still philosophise in smoke-filled cafés, but their countrymen flock to Hollywood films and devour American brands. American culinary sins—fast food, TV-dinners—are on the rise in the land of gastronomy, and with them child obesity. Yet the more that ordinary French people embrace such American ways, the more the elite seems fixated with an anti-Americanism that runs far deeper than just differences over Iraq. What is it about the French and America?

France has no monopoly on anti-Americanism. But no other country gets such scorn from Americans for harbouring the sentiment. France's defiance over Iraq explains much of this today. But that disagreement swelled into an exchange of insults because it drew from a deeper well of American assumptions about the French—their unreliability, ingratitude, superciliousness—that are in turn inspired by the force of French anti-Americanism.

French anti-Americanism is unlike other European varieties, because it prevails not only on the political left but on the right too. Anti-Americanism in Spain used to be a largely right-wing phenomenon, and the tradition is venerable among right-wing writers in Britain. But only in France has it inspired the most potent strain of right-of-centre politics for nearly half a century. President Jacques Chirac derives most of his support from this tradition, whose champion is still Charles de Gaulle, the president who converted France's dollar reserves into gold and, in 1966, defiantly pulled France out of NATO's military command.

Some, such as Philippe Roger, the author of "L'Ennemi Américain", detect an undercurrent of anti-Americanism going back to the denigration of pre-revolutionary America by French thinkers in the 18th century. It reappeared, often as cultural snobbery, in the 19th century, and hardened into contempt in the 20th, most virulently among communists, as American industrial might grew. A rash of publications during the 1920s and 1930s

—"L'Abomination Américaine" (1930), "Le Cancer Américain" (1931)—railed against the inhumanity of American life. "Out with the Yankees!" wrote one pamphleteer. "Out with the people and their products, their methods and their lessons, their dances and their jazz! Let them take back their Fords and their chewing gum." The sentiment has found an echo, especially in the columns of France's national newspapers, ever since. The durability of anti-Americanism prompted Jack Straw, Britain's foreign minister, to call it an ancient French "neurosis".

Scratch the surface of the denunciations from on high, however, and French anti-Americanism is not quite what it seems. First, because it is an elite doctrine that is often not shared by ordinary people. Second, because it is used by the political class more as a scapegoat for its own troubles than as a reasoned response to real threats. And, third, because it implies that the French clash with America out of antipathy. The real reason is rivalry, tinged with jealousy.

"It is an article of faith among American intellectuals", wrote Thomas Frank, the author of "What's the matter with Kansas?", "that countries such as France resist Hollywood films because they are snobs, dedicated to bringing 'culture'—in the form of arty, disjointed films—to the masses." Certainly, French intellectuals cherish low-plot, high-art films, and the French Ministry of Culture leads a guerrilla war to defend such works from a vulgar American invasion. But what do French people actually watch?

Getty Images

From France with love

In the first 11 months of 2005, the top film was "Star Wars: Episode 3". The all-time top box-office film in France is another American blockbuster, "Titanic". On the small screen, French versions of American reality television and confessional talk-shows clog up the schedules, spawning the term *la télé poubelle*. French teenagers download American rap to their iPods. In 2004, the person most searched for on Google France was Britney Spears.

The more American brands flaunt their origins, the better they seem to do. In Carrefour at Montesson, a giant out-of-town hypermarket west of Paris, the bakery shelves are stacked with "Harry's American Sandwich" bread, a sliced product that has taken the land of the baguette by storm. In the nearby McDonald's, *Le road to America* menu tempted customers not so long ago with Le New York burger and Le Texas. Such is the success in France of McDonald's, a chain that is struggling elsewhere, that its boss was promoted to reinvigorate the brand across Europe.

Existentialism on the rocks

The French seduction by Americana is not new. The French fell for American jazz in the 1920s and 1930s, welcoming black American musicians who saw France as a haven from the racism at home. Josephine Baker became a music-hall star in Paris. Sidney Bechet lived his last years there. Duke Ellington, Charlie Parker and Louis Armstrong were mobbed when they toured France. American writers, too, from Richard Wright to Henry Miller, made a home in Paris, finding a reception and stimulation that eluded them at home. Sartre and de Beauvoir adored America's jazz, its novels, its films and its whisky.

Of course, a taste for American brands or popular culture does not necessarily mean a taste for America, its citizens or leaders. Consumption patterns are no guide to affinity, argues Mr Roger: American brands are popular in the Arab world, after all. Yet even the evidence for popular anti-Americanism is ambivalent.

For sure, 85% of the French disapprove of George Bush's international policies, according to the latest German

Marshall Fund transatlantic survey, compared with 72% of all Europeans and 62% of the British. Mr Bush's French supporters are a silent minority: just 11% would have voted for him, said one poll before the 2004 presidential election. And today's America—God-fearing, fixated by terrorism, militaristic—is not the Europhile America of old that a nostalgic France often yearns for.

Yet the French do not seem to generalise this dislike. In one 2004 poll, 72% of the French had a favourable view of Americans, more even than in Britain (62%) or Spain (47%). Some 68% of those questioned in another poll the same year said that what unites France and America was more important than what separates them. During the 60th anniversary of the Normandy landings in 2004, politicians were frosty, but the people at large showed an outpouring of gratitude to American veterans.

Even in the 1950s, as anti-Americanism raged on the left, ordinary French people did not express hostility to America. Between 1952 and 1957, according to Michel Winock, a French historian, polls found the French on average unequivocally favourable to America. Today America still draws the French. Young French bankers, cooks and students head for New York or California. Even French politicians cannot resist the allure. On the left, Laurent Fabius snapped up a short summer job lecturing at the University of Chicago in 2003 and again in 2004. On the right, Nicolas Sarkozy, who found an hour to entertain Tom Cruise at his ministry in Paris, told a New York audience that "The dream of French families is that their children go to American universities." Even Mr Chirac has fond memories of a summer at Harvard. He may rail about American cultural imperialism, but could not resist inviting Steven Spielberg to the Elysée Palace to award him the *légion d'honneur*. So much for French disdain for the new world.

In truth, the allergy to America was always a rather intermittent complaint.

> When we recall the fervent anti-Americanism of the left in the 1950s and of the right in the 1960s, we can't help but be struck by the transformation of attitudes and sensibilities that have opened the door to American mass and high culture. The transformation of attitudes has even resulted in general support for American foreign policies. Survey data show that while France manifested the strongest hostility towards the United States in the post-war period, it is now probably the least hostile of the European countries.

This was Ezra Suleiman, a political scientist at Princeton and astute observer of France, writing some 20 years ago. It is easy to forget that Ronald Reagan's America was widely admired by François Mitterrand's France. Even the French elite does not always feel compelled to stir up anti-Americanism.

Consider the revolutionary period, which Patrice Higonnet, a Harvard historian, calls the "mythological age" of mutual admiration. French and Americans, intoxicated by modern ideas about liberty, swapped theory, gunpowder and manpower. The Marquis de Lafayette, who was made an American officer and helped to defeat the British at the battle of Yorktown in 1781, was a shared hero. Tom Paine, an American by adoption, was granted French citizenship for his contribution to revolutionary thinking. Benjamin Franklin was adored in the salons of Paris, and Thomas Jefferson was invited to sit in the National Assembly during the writing of the French constitution.

For sure, anti-American feelings later stirred in France. French radicals were disappointed at the timidity of America's revolution. Yet French fascination with the young republic survived. Disenchantment was followed by renewed admiration. Lafayette spent nearly 13 months in the United States as a guest of various Americans in 1824-25, before being sent home in a government frigate with a gift of $200,000 and the ownership of a small town. In 1886, President Grover Cleveland unveiled a gift from the French: a statue dedicated to "Liberty Enlightening the World".

It's a diversion

What prompted all this to change into 20th-and 21st-century anti-Americanism? Explanations include a clash of commercial interests, as American economic might grew and French clout declined; changing views of common foreign threats; and the two countries' relative balance of power. To these might be added a French sense of insecurity. Anti-Americanism intensifies at times of French uncertainty. It has often flared after French military humiliation—1917, 1940, 1962—or instability at home. Striking positions of independence from America is a way for France to project power when it feels emasculated, something de Gaulle well understood after the American liberation of France.

The all-time top box-office film in France is another American blockbuster, "Titanic"

Today's concern about decline is another such moment. Sure enough, a favourite posture among the French political class is proclaiming the need to build up Europe to counterbalance the United States. Despite a recent thaw in Franco-American relations, President Chirac, in the best Gaullist tradition, continues to call for a "multi-polar world". On the left, the Socialist Party campaigned for the European constitution with the slogan "Strong in the face of the United States".

Or consider the use of the term "*l'Américain*" by French politicians to discredit rivals. Michel Rocard, a Socialist prime minister in the 1980s, was undermined by the label. Today, Mr Sarkozy's rivals on the right pin it on him. The epithet is potent because many current French phobias—capitalism, globalisation, liberalism—are associated with America.

Indeed, Jean-François Revel, author of "L'Obsession anti-Américaine", argues that French anti-Americanism, particularly in the media, often flourishes at the expense of self-examination. The French delight in exposing American poverty, racism and ghetto life, he pointed out well before the country's recent riots proved his point, when at home a tenth of the workforce is out of work and young French Muslims are isolated in suburban tower blocks. America, he argues, "serves to console us about our own failures by sustaining the myth that things are even worse there—and that what is going wrong for us comes from them."

Thomas Friedman, a columnist for the *New York Times*, kicked up a stir among the French during the stand-off over Iraq when he declared that "France is becoming our enemy." But is it really hostile to America?

America is, after all, one of the few western countries with which France has never been to war. Even de Gaulle supported America during the Cuban missile crisis, and reminded a joint session of Congress of the two countries' history of shared values. The country that supposedly scorns American capitalism has spawned global companies that feed the American army (Sodexho), fit tyres on American cars (Michelin) and put the gloss on American lips (L'Oréal). In many ways, France and America clash so often not because they are so irreconcilably different, but because they are so alike.

The modern French and American polities may have evolved quite differently, notably where the role of the state is concerned, but both emerged as highly codified, anti-clerical, secular republics. Both—unlike the dissembling English—can articulate unapologetically what their country stands for. Born of revolutions, America and France each established republics inspired by Enlightenment thinking, and based on freedom and individual rights. Within the same year, 1789, both the French Declaration of the Rights of Man and the American Bill of Rights were drafted.

Above all, each nation believed in the universalism of its model—the Americans stressing liberty, the French civilisation—and shared an ambition to spread it abroad. The conviction among the French elite that France represents an alternative to the American way runs deep. It forms part of the national mythology that has helped to shore up French pride. And it explains why the French so readily pick on America at times of self-doubt.

Just listen to Dominique de Villepin, the prime minister, who came to embody anti-American defiance. "What an honour to be French," he wrote in a recent book, "loyal to a...responsibility to bestow a conscience, a soul upon our Earth. Our democracy was built upon the affirmation of universal values," he adds, and France's destiny is to enact "our universal and humanist dream".

Such florid romanticism may provoke derision on the other side of the Atlantic, never mind how closely it parallels Mr Bush's belief in his duty to spread freedom. But the basic point is keenly felt among the French governing class. It echoes de Gaulle's "certain idea" of France, "dedicated to an exalted and exceptional destiny", 50 years ago. This competitive instinct explains why anti-Americanism was the natural flipside to de Gaulle's effort in the 1960s to turn Europe into a French-led superpower.

As with de Gaulle, so with his inheritors. Romantic rivalry inspires Mr Chirac's determination to create a "multi-polar" world, and his resistance to Mr Bush's doctrine of unilateral pre-emption. It explains France's desire to keep its own spheres of influence, whether in Africa or the Arab world. And, incidentally, it explains France's eagerness

to see off others whom it considers to be encroaching on its domain, notably the British, whose first attempts to join the European common market were vetoed by de Gaulle.

Moreover, defying the might of America is a form of muscular self-affirmation, to be contrasted with the unmanly British tendency to jump when American fingers click. To be pro-American for long would emasculate. After all, what is France for if not to represent an elegant, pleasurable alternative to the American way, even if it does so as most of the country munches its burgers and goggles at its trashy television?

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The Finno-Ugrics

The dying fish swims in water

Dec 20th 2005 | MARI-EL, RUSSIA, AND TALLINN
From The Economist print edition

Russia finds outside support for its ethnic minorities threatening

IF YOU want to embarrass a Finn, and infuriate a Russian, raise your vodka glass to "Suuri Suomi—Uraliin asti!". That means "Greater Finland—to the Urals and beyond". It sounds fanciful, even potty. But it used to be real geopolitics. In the dying days of the Tsarist empire, a swathe of Russia bubbled with nationalist agitation among minorities, many with ethnic ties to Finland.

The Finns themselves got away for good. Their ethnic kinsfolk—the Komi, Mari, Udmurts and the like—managed it only briefly. In 1917-18 there was a big country in the middle of Russia called Idel-Ural (literally, "Volga-Ural") which united the Finno-Ugric (the "Ugric" because of distant cousinship with Hungary) and Turkic peoples in those areas. When it was crushed by the Bolsheviks in late 1918, its refugee foreign minister, Sadrí Maqsudí Arsal, got a warm welcome first in Finland and then Estonia.

In Russian nightmares at least, that spectre now looms again. According to Vladislav Surkov, an adviser to Vladimir Putin, there is a "premeditated system of operations" by Finland, Estonia and the European Union to fan discontent. The more nationalist papers have steamy stories of westerners plotting Russia's destruction. After Mr Putin said recently that foreign-financed groups should be subject to strict scrutiny by the Russian security agencies, a website with close ties to officialdom, news12.ru, said that pro-Mari pressure groups would now be investigated further (the site also accused "Estonian nationalists" of stoking riots in Paris).

Yet the Finno-Ugric axis in world politics seems more like a curiosity than a conspiracy. Although the Finns and Estonians are close (their languages are as similar as Italian and Spanish), ties with Hungary are mainly sentimental. Common linguistic roots are extremely distant. A Finno-Ugric joke tells of migrating tribal forebears finding a signpost on the steppe reading: "To civilisation". Those that could not read it went north and became Finns. Those that could went to central Europe and became Hungarians. (Finns tell the story the other way round.)

Today the connection looks flimsy. Philologists' labours have identified some 200 words with common roots in all three main Finno-Ugric tongues. Fully 55 of these concern fishing, and a further 15 are about reindeer; only three are about commerce. An Estonian philologist, Mall Hellam, came up with just one mutually comprehensible sentence: "the living fish swims in water."*

Hungary's involvement in the Finno-Ugric movement is the most low-key. The country's left-of-centre government has good relations with Russia, and no desire to get involved in what it sees as the squabbles of its Russophobic northern cousins. But the hard-pressed Finno-Ugric minorities in central Russian regions like Mari-El, Komi and Udmurtia are more concerned. To them, Estonia, with its regained statehood, is a miracle, and Finland an enviable superpower. For the minority Finno-Ugric languages of Russia are dying, spoken mainly by old people in the countryside and a handful of intellectuals. There are few books, newspapers, radio or TV programmes and little mother-tongue education. It is Russian that signifies culture and civilisation; the local lingo, for many, is useless peasant gobbledegook.

That would have been Estonia's fate too, had the Soviet Union not collapsed in 1991. Estonians were well on the way to becoming a minority in their own country thanks to the migration of Russian-speakers from elsewhere in the empire; the use of Russian in education was growing fast.

For ardent Finno-Ugric activists, Russian linguistic chauvinism is part of something worse. An appeal from the Foundation for the Salvation of the Erzya Language described the position of its people, who mainly live in the central Russian republic of Mordovia, as "critical and even hopeless" because of the Russocentrism of the education system and public broadcasting. "Imperial aggression" had led to a sharp drop in the ethnic population, it said, accusing the local and federal authorities of "genocide".

Strong stuff—but it is true that many of Russia's 100-odd minority tongues are dying out. Shor, for example, a language in southern Russia with Turkic and Finnic roots, is spoken by only 10,000 people, mainly elderly. A book of poems by Gennady Kostochakov, one of a handful of Shor academic specialists, is entitled "I am the last Shor poet". Even that is enviable by some standards. The Votian language, a close relative of Estonian, is spoken by just 20 people in a couple of villages in north-western Russia.

Speaking of tongues

Sitting in a Hungarian restaurant in bustling Tallinn, Andres Heinapuu, a top Estonian Finno-Ugrist (who learnt Votian in five days), gives a depressing description of apathetic, hostile or ignorant officialdom in the Russian provinces. Only in Mari-El did the authorities make an effort to create bilingualism in the early post-Soviet years, and now even that has gone into reverse. The republic's rulers have purged ethnic Mari officials and sharply cut Mari-language media and education. Mari activists have suffered beatings, and one suspicious death.

Worse, the Finno-Ugric minorities are not as robust as their Turkic counterparts, Mr Heinapuu says. "The Finno-Ugric character is different—we are used to running away". Whereas the Turkic minorities' identity in places such as Tatarstan is bolstered by Islam, the Finno-Ugrics' tradition—and sometimes current practice—is pagan. Mari-El and Udmurtia are probably the only places in Europe where shamanism (nature-worship) is still an authentic, organised religion, with weddings celebrated in sacred groves.

So what to do? Barring a collapse of the Russian state, any idea of Estonian-style independence seems hopeless: in every one of the Finno-Ugric bits of Russia, the Indo-Europeans are a majority. In Mordovia, for example, the Erzyas and their ethnic cousins, the Mokshas, together make up less than a third of the population.

Reuters

A “suur kala” (big fish) in any language

So the main task is survival. Mr Heinapuu and his colleagues try to bolster their kinsfolk's language and culture and highlight Russian chauvinism. The first is difficult. In the two-room world headquarters of the Finno-Ugric movement in Tallinn, Mr Heinapuu proudly shows a shelf of newly published poetry in Mari and other languages. It is a drop in the ocean. “What we really need is the ‘Da Vinci Code’ in Udmurt,” a colleague ruefully complains.

A more promising idea is to bring students from the Finno-Ugric bits of Russia to study in Estonia. That initiative, the Kindred Peoples' Programme, began in 1999. It was meant to create expertise, expose students to western society, and boost morale.

It hasn't worked out like that, though. Half the 100-odd students decided to stay. “These were the first towns they had ever lived in. They adapted too well, and those that went back had problems with Russian life,” says Mr Heinapuu. Now the focus has shifted to graduate education. And the money involved in the student programme is tiny: just 3m Estonian kroons ($230,000). Rich Finland gives only a bit more, Hungary almost nothing.

That leaves the one area where the Finno-Ugric movement can claim some success: propaganda initiatives by politicians and activists. In May this year the European Parliament voted to condemn the authorities in Mari-El.

That got the Russian authorities riled. So did an academic conference in August held in the Mari capital, Yoshkar-Ola. The president of Mari-El, a bombastic Kremlin loyalist, Leonid Markelov, was confronted, seemingly for the first time, with the fact that some outsiders—including ambassadors and politicians from the Finno-Ugric countries, plus a bunch of academics—found his rural subjects' odd customs and strange speech rather interesting.

The conference also highlighted the launch of a new Mari-language radio station, which—crucially—will include not just the folk-music and poetry beloved by cultural conservationists, but also modern idioms such as rap music in Mari.

It is possible to reverse language decline. Norway, for example, has poured money into supporting the culture and language of its northern Sami peoples. There is no sign of that in Russia, where the authorities approach minority languages with neglect and suspicion. When Tatarstan, the core of the old Idel-Ural, tried to reintroduce the Latin alphabet in which the local Turkic language is most logically written, this was banned by the Kremlin.

It is hard to match the modest protests by a loose movement consisting mainly of concerned philologists and ethnographers with the allergic reaction they prompt. The Finno-Ugrists' aim is to halt their kinsfolk's extinction, not to break up Russia. Yet viewed through the lens of Russia's uneasy relationship with its imperial history, the hostile reaction is logical. The collapse of the Soviet Union—called a “catastrophe” by Mr Putin—is still echoing today. In most of the former empire, Russian language and culture are still in headlong retreat. In the Caucasus, Azerbaijan has succeeded where Tatarstan failed, in dropping the cyrillic alphabet. In Georgia, English is overtaking Russian as the second language of the elite.

The involvement of Estonia adds extra aggravation. It is much disliked by Russians for its economic success and strongly anti-Soviet take on history, and for encouraging local Russians stranded by the Soviet collapse to learn Estonian and apply for citizenship. To Mr Heinapuu and his pals, the Russian ire they arouse is a backhanded compliment. But it is yet more bad news for the people they are trying to help.

*Elav kala ujub vee all (Estonian). Elävä kala ui veden alla (Finnish). Eleven hal úszkál a víz alatt (Hungarian).

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Churches as businesses

Jesus, CEO

Dec 20th 2005 | SOUTH BARRINGTON, ILLINOIS, HOUSTON, TEXAS AND WASHINGTON, DC
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World Picture

America's most successful churches are modelling themselves on businesses

VISIT Willow Creek Community Church in South Barrington, Illinois, an upscale exurb of Chicago, and you are confronted with a puzzle. Where in God's name is the church? Willow Creek has every amenity you can imagine, from food courts to basketball courts, from cafes to video screens, not to mention enough parking spaces for around 4,000 cars. But look for steeples and stained glass, let alone crosses and altars, and you look in vain. Surely this is a slice of corporate America rather than religious America?

The corporate theme is not just a matter of appearances. Willow Creek has a mission statement ("to turn irreligious people into fully devoted followers of Jesus Christ") and a management team, a seven-step strategy and a set of ten core values. The church employs two MBAs—one from Harvard and one from Stanford—and boasts a consulting arm. It has even been given the ultimate business accolade: it is the subject of a Harvard Business School case-study.

Willow Creek is just one of a growing number of evangelical churches that borrow techniques from the corporate world. Forget those local worthies who help with the vicar's coffee mornings and arrange flowers. American churches have started dubbing their senior functionaries CEOs and COOs. (North Point Community Church in Alpharetta, Georgia, even has a director of service programming. Can Chief Theological Officers be far behind?) And forget about parish meetings in which people bat about random ideas on how to keep the church going. America is spawning an industry of faith-based consultancies. John Jackson, the senior pastor of Carson Valley Christian Centre, a "high-impact" church in Minden, Nevada, has taken to describing himself as a "PastorPreneur" and has published a book with that title.

Willow Creek is based on the same principle as all successful businesses: putting the customer first. Back in 1975 the church's founder, Bill Hybels, conducted an informal survey of suburban Chicagoans, asking them why they did not go to church, and then crafted his services accordingly. He removed overtly religious images such as the cross and stained glass. He jazzed up services with videos, drama and contemporary music. And he tried to address people's practical problems in his sermons.

An emphasis on user-friendliness continues to pervade the church. Mr Hybels's staff try to view their church through the eyes of newcomers (or "seekers" as they are dubbed). This means dedicating themselves to "total service excellence". The grounds—"the path of first impressions"—are kept impeccably, with the lawns mown and

the car park perfectly organised. It means being welcoming without being over-the-top ("evangophobia" is a big worry). And it means having lots of "hooks" that help to attach seekers to the church.

Willow Creek has dozens of affinity groups for everyone from motor-cycle enthusiasts to weight-watchers. The church provides social services, from counselling for drunks and sex-addicts to providing help with transport. It has a "cars ministry" which repairs donated vehicles and gives them to needy people. "Cars", of course, stands for "Christian auto-repairmen serving". The church also lays on entertainment, from sports to video-areas.

Willow Creek is particularly careful to ensure that everything is suitably tailored for different age-groups. The church provides child-care for thousands of children every weekend: this started out as a necessity (parents will not come if their children are not taken care of) but has become a hook in its own right (parents can relax at the service while children are royally entertained). The church also has a youth auditorium. Willow Creek's adolescent members have taken over a hall, tearing up the carpet to expose the concrete floors, painting the whole thing black and littering video-screens all over the place.

Mr Hybels's emphasis on user-friendliness is now commonplace in the Evangelical world. Rick Warren is a fifth-generation Southern Baptist who was raised in a faith that is both austere and emotional. But when he moved to Saddleback Church in Lake Forest, Southern California, he realised that Baptist staples like altar calls—in which worshippers come to the front of the church and accept Jesus—would not go down well with his prosperous and laid-back congregation. So he packaged himself as a relaxed Californian: bearded and open-shirted, he served up a diet of contemporary music and self-help tips.

In their pursuit of "total service excellence" America's pastorpreneurs do not just preach on Sundays and deal with the traditional "hatch, match and dispatch" rites of passage. They keep their buildings open seven days a week, from dawn to dusk, and deliver a truly catholic array of services. Some mega-church complexes house banks, pharmacies and schools. Counselling and guidance groups are routine. So are children's ministries.

The Second Baptist Church, in Houston, Texas, has a huge football pitch. The Phoenix First Assembly of God has a medical-equipment lending closet. The World Changers Ministry in Georgia offers help preparing for tests, filling out tax forms and buying houses (it even has a network of mortgage brokers and real-estate agents). Lakewood Church, also in Houston, puts on one of its Sunday services *en español*. Carson Valley Christian Centre (motto: "friends helping friends follow Christ") offered sermons on how to slay the "Goliaths" of procrastination, resentment, anxiety, temptation and loneliness. It also offers classes in martial arts: "the Christian warrior way".

This emphasis on customer-service is producing a predictable result: growth. John Vaughan, a consultant who specialises in mega-churches, argues that 2005 has been a landmark year. This was the first time an American church passed the 30,000-a-week attendance mark (it was Lakewood, which earlier this year moved into its new home in Houston's Compaq Center). It was also the first time that 1,000 churches counted as mega-churches (broadly, you qualify if 2,000 or more people attend). Willow Creek has seating for 7,200 (comfortable chairs, not wooden pews). The fastest-growing church in the country, Without Walls in Tampa, Florida, added 4,330 new members in the past year alone.

WPN

Let there be lighting

This sort of rapid growth brings all sorts of advantages. The most obvious is that it lets churches put on extravaganzas. Willow Creek regularly invites celebrities such as Randy Travis, a country singer, or Lisa Beamer, the widow of Todd Beamer (a hero on one of the hijacked aircraft on September 11th). Lakewood has a 500-strong choir. Westlink Christian Church put on an outdoor display of extreme sports that includes skate-boarders jumping

over a fire to illustrate salvation.

Growth also allows pastorpreneurs—empowered by a combination of large cash flows and economies of scale—to exploit every available channel to get their message across. Joel Osteen, the chief pastor of Lakewood, has a television-ministry, which reaches 7m people around the world, and a best-selling book, "Your Best Life Now". Rick Warren's "The Purpose-Driven Life" has sold more than 25m copies and spawned a follow-up industry of books, tapes, courses and CDs, including a selection of songs. Bishop T.D. Jakes, the chief pastor of The Potters House, reaches 260 prisons a week via satellite.

Most successful churches are humming with technology. Willow Creek sports four video-editing suites. World Changers Ministries has a music studio and a record label. The Fellowship Church in Grapevine, Texas, employs a chief technology officer (and spends 15% of its $30m annual budget on technology). Worshippers in such churches do not have to worry about finding their place in the hymn book or that they will catch cold. Computers project the words of the hymns onto huge screens, and the temperature is perfectly controlled.

But this rapid growth brings problems in its wake too—problems that usually end up forcing churches to become yet more business-like and management-obsessed. The most obvious challenge is managing size. You cannot just muddle through if you have an annual income of $55m (like Lakewood in 2004) or employ 450 full- and part-time staff (like Willow Creek). Such establishments need to set up a management structure with finance departments and even human-resources departments. They also need to start thinking—like Mr Hybels—about the relationship between the religious leadership and the management team.

Another problem is subtler: how do you speak directly to individual parishioners when you have a church the size of a stadium? Some mega-churches have begun to see members drift away in search of more intimate organisations. And many mega-preachers worry that they are producing a flock who regard religion as nothing more than spectacle. So they have begun to adopt techniques that allow churches to be both big and small at once.

One ruse is to break the congregation into small groups. Most big churches ask members of their congregation to join clutches of eight-to-ten people with something in common (age or marital status, for example). A second is to segment the religious market. Willow Creek has two very different services. The Sunday one for new "seekers" is designed to exhibit the Christian faith in a "relevant and non-threatening way". Willow Creek estimates that over half of the people who come to its Sunday services would otherwise be "unchurched". The Wednesday service for people who are committed to Christianity is designed to deepen their faith.

A third technique is to set up satellite churches—a form of religious franchising. Willow Creek has set up several satellite churches in the Chicago area so that nobody has to travel more than 50 miles. Life Church has franchised five campuses in Oklahoma, two in Arizona and one in Texas.

Growth in religious organisations is proving just as addictive as it is in corporate ones, and successful churches are reaching deep into business theory to feed their habit. They use strategic planning and strategic "visions" to make sure they know where they are headed.

Imagestate

These pastorpreneurs are committed not just to applying good management techniques to their own organisations but also to spreading them to others. This is, after all, the world of evangelism. Willow Creek has a consulting arm, the Willow Creek Association, that has more than 11,500 member churches. It puts on leadership events for more than 100,000 people a year (guest speakers have included Jim Collins, a business guru, and Bill Clinton) and earns almost $20m a year. Rick Warren likens his "purpose-driven formula" to an Intel operating chip that can be inserted into the motherboard of any church—and points out that there are more than 30,000 "purpose-driven" churches. Mr Warren has also set up a website, pastors.com, that gives 100,000 pastors access to e-mail forums, prayer sites and pre-cooked sermons, including over 20-years-worth of Mr Warren's own.

Indeed, in a nice reversal businesses have also started to learn from the churches. The late Peter Drucker pointed

out that these churches have several lessons to teach mainline businesses. They are excellent at motivating their employees and volunteers, and at transforming volunteers from well-meaning amateurs into disciplined professionals. The best churches (like some of the most notorious cults) have discovered the secret of low-cost and self-sustaining growth: transforming seekers into evangelicals who will then go out and recruit more seekers.

The Lord helps those who help themselves

There is no shortage of criticisms of these fast-growing churches. One is that they represent the Disneyfication of religion. Forget about the agony and ecstasy of faith. Willow Creek and its sort are said to serve up nothing more challenging than Christianity Lite— a bland and sanitised creed that is about as dramatic as the average shopping mall.

Another criticism is that these churches are not really in the religion business but in the self-help trade. Mr Osteen and his equivalents preach reassuring sermons to "victors not victims", who can learn to be "rich, healthy and trouble free". God, after all, "wants you to achieve your personal best". The result is a wash: rather than making America more Christian, the mega-churches have simply succeeded in making Christianity more American.

Moreover, it is a wash that is extraordinary good for the pastorpreneurs themselves, who prosper by preaching the gospel of prosperity. The wonderfully named Creflo Dollar, chief pastor of World Changers Church International in Georgia, drives a Rolls-Royce and travels in a Gulfstream jet. Joyce Meyer, who promises that God rewards people with his blessings, counts among her own blessings a $2m home and a $10m jet.

Yet three things can be said in the mega-churches' defence. The first is that they are simply responding to demand. Their target audience consists of baby-boomers who left the church in adolescence, who do not feel comfortable with overt displays of religiosity, who dread turning into their parents, and who apply the same consumerist mentality to spiritual life as they do to everything else. The mega-churches are using the tools of American society to spread religion where it would not otherwise exist.

The second line of defence is that they are simply adding to a menu of choices. There is no shortage of churches that offer more traditional fare—from Greek Orthodox to conservative Catholic. The third defence is more subtle: these churches are much less Disneyfied than they appear. They may be soft on the surface, but they are hard on the inside. The people at Lakewood believe that "the entire Bible is inspired by God, without error". Cuddly old Rick Warren believes that "heaven and hell are real places" and that "Jesus is coming again". You may start out in the figurative hell of a Disney theme-park, but you end up with the real thing.

The other common criticisms of the mega-churches—and the marriage of religion and business that they embody—are practical. One is that the mega-churches are a passing fad, doomed to be destroyed by a combination of elephantiasis and scandal. Another is that they are an idiosyncratic product of red-state America: amusing to look at, but irrelevant to the rest of the world. Again, neither argument is entirely convincing.

The marriage of religion and business has deep roots in American history. Itinerant Methodist preachers from Francis Asbury (1745-1816) onwards addressed camp meetings of thousands of people, and often borrowed marketing techniques from business. Aimee Semple McPherson, one of America's first radio Evangelists, built a church for 5,300 people in Los Angeles in 1923. (She had none of Mr Hybels's worries about religious symbolism: she topped her church with an illuminated rotating cross that could be seen 50 miles away.) And the gospel of self-help and prosperity is as American as apple pie. In his 1925 bestseller, "The Man Nobody Knows", Bruce Barton, an adman turned evangelist, pictured Jesus as a savvy executive who "picked up twelve men from the bottom ranks of business and forged them into an organisation that conquered the world". His parables were "the most powerful advertisements of all time".

The mega-churches are also on the march well beyond red-state America. America has an impressive track record of exporting its religious innovations. Pentecostalism, which was invented in a Kansas bible college in 1901, currently has well over 100m adherents around the world. Even Mormonism, that most idiosyncratically American of religious faiths, has 6.7m followers outside the United States. There is no reason to think that the latest style of marriage between religion and business is an exception. Rick Warren has inserted his "purpose-driven operating chip" into churches in 120 countries around the world. He and his congregation have also set themselves the goal of eradicating poverty in Africa. The Willow Creek Association has 4,700 member churches abroad; a meeting in the staid English town of Cheltenham recently attracted almost 3,000 people. The merger between business and religion has been fabulously successful in America. Now it is starting to do battle with the "evangephobia" that marks so much of the rest of the world.

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The curse of oil

The paradox of plenty

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Reuters

One day soon poor countries may actually benefit from their natural resources

AN UNUSUAL meeting took place in October at St Matthew's church in Baltimore. After the sermon, some parishioners stayed behind to hear two emissaries from Africa explain the harm that America's gasoline guzzling does to the poor in faraway lands. An elderly parishioner raised his hand: "I know Africa is very rich in diamonds, gold and oil, but the people are very poor. Why are your governments so bad at managing that wealth?" Austin Onuoha, a human-rights activist from Nigeria, smiled and conceded, "You hit the nail right on the head."

When it comes to wasted wealth, and the problems that bedevil poor countries that are rich in natural resources, especially oil, there is plenty of blame to go around. Economists have long observed that such countries tend to do badly. In a study in 1995, Jeffrey Sachs, now of Columbia University in New York, showed that the resource-rich grow more slowly than other poor countries—even after such variables as initial per capita income and trade policies are taken into account.

The usual explanation for this is "Dutch Disease", named for the hardships that befell the Netherlands after it found North Sea gas. When a country strikes hydrocarbons, a sudden inflow of dollar-denominated revenues often leads to a sharp appreciation in the domestic currency. That tends to make non-oil sectors like agriculture and manufacturing less competitive on world markets, thus leaving oil to dominate the economy.

Experts have offered fixes for the economic aspects of this "curse of oil" for a while. Some governments have used stabilisation" policies: when oil prices are high, revenues are set aside; when prices fall, governments use the funds to cushion the blow. A related idea is to park part of the proceeds from resources in offshore "funds for the future". In theory, such funds would not only help spread the wealth over several generations, but also help avoid over-appreciation of the local currency. Some countries even disburse some oil revenues directly to every household, thereby ensuring that ordinary folk see tangible benefits.

These are fine ideas in principle, and in developed countries they even work to some extent. Officials in oil-rich Alberta and Alaska are now handing out potfuls of cash to households. But charges of wasteful government spending and cronyism abound. It has been suggested that a new Iraqi government could disburse oil bounty to its

citizens too, but doing so properly in a country where the poor do not have bank accounts will be tricky. Norway has an offshore oil fund that is often touted as a model for developing countries. Yet even the virtuous Norwegians have been raiding it for politically popular causes.

In developing countries, such raids are the rule rather than the exception. Zambia set up a stabilisation scheme to manage mineral exports; but as prices soared in the 1970s, the government dropped it—and years of pain followed when prices fell again. Venezuela set up a fund for the future, "El Fondo de Inversiónes", in 1974, but was soon raiding the kitty. An orgy of domestic spending left the country with a herd of white-elephant projects, huge foreign debt and declining social spending.

Michael Ross, at the University of California at Los Angeles, argues that oil-rich countries do far less to help the poor than do countries without resources. He points to evidence that oil and mineral states fare worse on child mortality and nutrition, have lower literacy and school-enrolment rates and do relatively worse on measures like the UN's "Human Development Index".

Why? Economics offers some answers. Unlike agriculture, the oil sector employs few unskilled people. The inherent volatility of commodity prices hurts the poor the most, as they are least able to hedge their risks. And because the resource is concentrated, the resulting wealth passes through only a few hands—and so is more susceptible to misdirection.

This misdirection points to another explanation for the oil curse that is gaining favour: politics. Because oil money often flows directly from Big Oil to the Big Man, as Africa's dictators are known, governments have little need to raise revenues through taxes. Arvind Subramanian of the IMF argues that such rulers have no incentive to develop non-oil sources of wealth, and the ruled (but untaxed) consequently have little incentive to hold their rulers accountable.

Some argue the Persian Gulf has escaped the oil curse. True, access to health care and education in the Gulf did improve (though booming populations in places like Saudi Arabia are eroding those gains). And a few countries, such as Qatar and the United Arab Emirates, have tried to diversify their economies. But a study by Mr Subramanian suggests that the Gulf's oil has rotted democratic institutions. Rachel Bronson of the Council on Foreign Relations, a think-tank in New York, points as evidence to life before oil. When the Saudi ruling family needed tax revenues, it consulted the merchant classes in Jeddah, so there was some mild democratic participation. The arrival of vast oil wealth, she argues, wiped out the power of the merchants, and made it easier for the royal family to quash democracy.

Another recent political argument is that resources fuel civil war. An analysis by Paul Collier of Oxford University suggests that for any given five-year period, the chance of a civil war in an African country varies from less than 1% in countries without resource wealth to nearly 25% in those with such riches.

Mr Subramanian concludes that economic factors like the Dutch Disease and corruption alone do not explain the oil curse. He maintains that the problem is weak institutions. George Soros, a financier who has set up charities to work on this issue, agrees.

Making oil transparent

The good news is that international initiatives are starting to shine a cold light on the murky business of oil. Tony Blair is promoting the Extractive Industries Transparency Initiative (EITI), a voluntary effort involving governments and oil majors. George Soros is backing the "Publish What You Pay" campaign, which demands more aggressive disclosure. Even big oil companies, long accused by activists of propping up dictators with bribes, are joining the transparency bandwagon.

Reuters

Tours by appointment only

As with the issue of global warming, BP is the oil major making the most public noise—and Exxon Mobil apparently the one most opposed to change. Ask senior executives of both firms what they think of the oil curse, and their answers are strikingly different. Graham Baxter at BP says "the curse of oil is a problem that BP recognises, and we have a part to play in helping our hosts deal with this wall of dollar-denominated cash coming into their fragile economies." But André Madec of Exxon says: "We don't like to call it the oil curse, we prefer 'governance curse'. We are private investors, and it is not our role to tell governments how to spend their money."

Yet the two firms' actions are not so different. BP may be vocal on the issue, but after getting burned in Angola (it published information about its oil bid and got a bitter rebuke from government officials) it no longer strays far from the pack. And Exxon, for all its gruff talk, is at the heart of a controversial project aimed at monitoring the revenues generated by the new Chad-Cameroon oil pipeline. The money is deposited in offshore escrow accounts and scrutinised by an oversight committee representing parliament and civic organisations. It is also involved in half a dozen countries participating in the EITI.

How far can transparency go? Mr Sachs sees no reason why government oil contracts should stay secret. Companies and governments have usually engaged in a conspiracy of silence about contractual terms, signing bonuses and other rake-offs. But things are changing. The western oil majors (though not state-run goliaths in China and India) are coming to see more transparency as inevitable or even desirable. As Mr Madec puts it, Exxon wants oil revenues to "go to the people rather than accounts in Switzerland" as it helps secure his firm's "licence to operate". In other words, it reduces the risk of boycotts and bad publicity.

The World Bank now seems keen: "Countries have no justification for secrecy," insists Rashad Kaldany of the bank's International Finance Corporation. "All of these agreements will be made public in future." And the IMF is already leading the charge: it required Equatorial Guinea, Angola and other recalcitrant countries to open up their oil accounts or risk ostracism.

The best news is that more poor-country leaders are coming to the view that transparency is best. The fledgling oil states of São Tomé e Príncipe and East Timor are eager participants in the EITI. Some two dozen in all have joined up. Nigeria's recent participation is encouraging the rest of West Africa, Mr Soros reckons, just as Azerbaijan's involvement has shamed Kazakhstan and other neighbours into cleaning up their act.

Mr Kaldany thinks the effect will spill over from oil to other resources. The push for greater disclosure is, he says, already leading to demands for greater transparency in the power, water and construction sectors. If push really comes to shove, natural resources may yet become what they should be for some of the world's poorest people: a blessing.

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Luxury

Inconspicuous consumption

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From The Economist print edition

Rex

Now that luxury has gone mass market, how are the super-rich to flaunt their wealth?

THE recently reopened Louis Vuitton store on the Champs Elysées is a deliberate exercise in democratic luxury. On its new, opulent art deco terraces, elegant French ladies of a certain age—the epitome of the traditional consumer of luxury fashion—rub padded shoulders with jeans-and-tee-shirt sporting younger women who could be their daughters, or, just as easily, rap singers or a gaggle of British working-class hen-weekenders.

What traditional buyers of luxury make of their nouveau co-consumers they are, of course, too civilised to say. But it seems unlikely that they consider Louis Vuitton's still-exquisite handbags, shoes and other indulgences to be quite as exclusive as before. If they continue to shop there—and the store's owner, LVMH Moët Hennessy Louis Vuitton, thinks it can extend its brand to a broader market without losing its existing customers—it may no longer be because its products are a signal of exalted social status.

In this respect, LVMH's goods are by no means unique. Products and services that were once the preserve of a very wealthy few—from designer handbags to fast cars, bespoke tailoring and domestic servants—are increasingly becoming accessible, if not to everyone, then certainly to millions of people around the world. This may appall killjoy economists such as Robert Frank, the author a few years ago of a book condemning "Luxury Fever" in this new "era of excess". But it is arguably even more upsetting to those super-rich folk who have long been able to afford luxury, and may in one crucial respect even regard it as a necessity.

As Thorstein Veblen noted over a century ago in "The Theory of the Leisure Class"—the book in which he coined the phrase "conspicuous consumption"—spending lavishly on expensive but essentially wasteful goods and services is "evidence of wealth" and the "failure to consume in due quantity and quality becomes a mark of inferiority and demerit." But in the 21st century, "being a conspicuous consumer is getting harder and harder", says James Lawson of Ledbury Research, a firm that advises luxury businesses on market trends. What does a billionaire have to do to get noticed nowadays?

Luxury for the people

A stone's throw from the Louis Vuitton store, the classical grandeur of the five-star Four Seasons George V hotel was the perfect Old World venue for the World Luxury Congress in October. But all the talk at the gathering was of the potentially lucrative opportunities presented by new consumers of luxury, in rich and emerging economies alike.

Being a millionaire, for instance, is becoming commonplace. In 2004 there were 8.3m households worldwide with assets of at least $1m, up by 7% on a year earlier, according to the latest annual survey by Merrill Lynch and Capgemini. The newly wealthy are often desperate to affirm their status by conspicuously consuming the favoured brands of the already rich. In developed countries this can be seen, in its extreme form, in the rise of "Bling"—jewellery, diamonds and other luxuries sported initially by rappers—and Britain's unsophisticated Burberry-loving "chavs". (Burberry is considered unusually successful at tapping a broader market. But even it now understands that not every new customer is desirable: in January it withdrew its distinctive checked baseball caps because of their popularity with chavs.)

The number of luxury buyers in the developed world is also being swelled by two other trends. First, consumers are increasingly adopting a "trading up, trading down" shopping strategy. Many traditional mid-market shoppers are abandoning middle-of-the-range products for a mix of lots of extremely cheap goods and a few genuine luxuries that they would once have thought out of their price league.

Alongside this "selective extravagance" is the growth of "fractional ownership": time-shares in luxury goods and services formerly available only to those paying full price. Fractional ownership first got noticed when firms such as NetJets started selling access to private jets. It has since spread to luxury resorts, fast cars and much more. In America, From Bags to Riches—"better bags, better value"—lets less-well-off people rent designer handbags. In Britain, Damon Hill, a former racing driver, has launched P1 International. A £2,500 ($4,300) joining fee, plus annual membership of £13,750, buys around 50-70 driving days a year in cars ranging from a Range Rover Sport to a Bentley or a Ferrari.

AIM

Roman Abramovich spent an estimated $400m on Chelsea Football Club alone

As a result, "the price of entry for much of what traditionally was available to the top 0.001% is now far lower", says Mr Lawson, who notes the sorry implications for a would-be conspicuous consumer: "How do I know if the guy who drives past me in a Ferrari owns it or is just renting it for the weekend?"

Demand for luxury is also soaring from emerging economies such as Russia, India, Brazil and China. Antoine Colonna, an analyst at Merrill Lynch, estimates that last year Chinese consumers already accounted for 11% of the worldwide revenues of luxury-goods firms, with most of their buying done outside mainland China. He forecasts that by 2014, they will have overtaken both American and Japanese consumers, becoming the world's leading luxury shoppers, yielding 24% of global revenues.

These emerging consumers have a big appetite for the top luxury brands—and the owners of those brands are increasingly keen to oblige. Russia is producing today's most determinedly conspicuous consumers. Roman Abramovich, the best-known oligarch not in jail, has conspicuously set new standards in buying mansions, ski resorts and soccer teams.

Veblen revisited

For the already rich, strategies such as splashing out on ever bigger houses, longer yachts or getting special treatment from luxury-goods firms does not contribute much marginal conspicuousness. Meanwhile, the list of new ways to get noticed by the masses is shrinking fast. Even space tourism—impressive in 2001, when Dennis Tito paid Russia $20m to visit the International Space Station—will soon be humdrum.

As it gets ever harder to consume conspicuously, are some traditional luxury consumers giving up trying? According to Virginia Postrel, author of "The Substance of Style", conspicuous consumption is much more important

when people are not far from being poor, as in today's emerging economies. In developed countries, in particular, "status is always there, but the shift in the balance is towards enjoyment". For instance, the first thing the newly super-rich tend to buy is a private plane. But that, she says, is "not so much about distinguishing themselves from the masses as not being stuck with them in a security line".

In his new book, "Hypermodern Times", Gilles Lipovetsky, the favourite philosopher of LVMH's boss, Bernard Arnaud, has coined the term "hyperconsumption". This is consumption which pervades ever more spheres of life and which encourages people to consume for their own pleasure rather than to enhance their social status. H.L. Mencken made the same point more crisply in a critique of Veblen in 1919: "Do I prefer kissing a pretty girl to kissing a charwoman because even a janitor may kiss a charwoman—or because the pretty girl looks better, smells better and kisses better?"

Rex

Yet rather than abandoning status anxiety, the way the rich seek to display status may simply be getting more complex. As inequality grows again in rich countries, some of the very rich worry about consumption that is so conspicuous to the masses that it provokes them to try to take their wealth away. Some car-industry experts blame weak sales of the latest luxury limousines on this fear.

As well as traditional conspicuous consumption and "self-treating", Ledbury Research identifies two other motives that are driving buying by the rich: connoisseurship and being an "early adopter". Both are arguably consumption that is conspicuous only to those you really want to impress. Connoisseurs are people whom their friends respect for their deep knowledge of, say, fine wine or handmade Swiss watches. Early adopters are those who are first with a new technology. Silicon Valley millionaires currently impress their friends by buying an amphibian vehicle to avoid the commuter traffic on the Bay Bridge. Several millionaires have already paid $50,000 a go to clone their pet cat.

In America, at least, says Marian Salzman, a leading trendspotter, the focus of conspicuous consumption is increasingly on getting your children into the best schools and universities. Harvard may be today's ultimate luxury good. Getting into the right clubs is also as important a social statement as ever. America's young wealthy may currently be seen at the Core Club in New York: membership is by invitation only, with a joining fee of $55,000 plus annual dues of $12,000.

But perhaps the true symbol of exalted status in the era of mass luxury is conspicuous non-consumption. This is not just the growing tendency of the very rich to dress scruffily and drive beaten-up cars, as described by David Brooks in "Bobos in Paradise". It is showing that you have more money than you know how to spend. So, for example, philanthropy is increasingly fashionable, and multi-billion-dollar endowments such as the Bill and Melinda Gates Foundation are certainly conspicuous. However, since the new philanthropists are keen to demonstrate that their giving produces results, this does not quite meet Veblen's threshold of being a complete waste of money. So the laurels surely go to those who are so wealthy that they are willing to buy adverts encouraging the state to tax them. Kudos, then, to those conspicuously non-consuming wealthy American opponents of recent efforts to abolish estate taxes: George Soros, Bill Gates senior (the father of the world's richest man) and Warren Buffett.

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Africa 40 years on

Return to Lundazi

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John Grimond, our former foreign editor, revisits the corner of Zambia where he taught in 1965

GOD must have been working to a budget when He came to make Zambia for, after the spectacular creation of the Victoria Falls and a few lesser bursts of exuberance, it was nearly all monotonous bush for the rest of the country, and by the time He got to Lundazi the cash was clearly at an end. Lundazi is an unremarkable place, way out east on the Malawi border, and on the road to nowhere much. The only town—township, technically—in an area the size of Ohio, it has just one building of note, a hotel built in imitation of a small Norman castle by a district commissioner in the late 1940s, when the country was run by the British. The Castle is a charming curiosity, but from its battlements the horizons hold none of the views for which Africa is famous. For the most part, Lundazi is quiet, mildly decrepit and, in the dry season at least, always dusty. Yet, for all that, it is unpretentiously welcoming, and its people are delightful.

So it certainly seemed in 1965, when I went there first, as a British 18-year-old filling the gap between school and university, and so it seemed again when I revisited it a few months ago for the first time in 40 years. In 1965 Zambia, hitherto called Northern Rhodesia, was enjoying its first year of independence from Britain. The hated federation with Southern Rhodesia and Nyasaland had been dissolved at the end of 1963, and Ian Smith's Southern Rhodesia had not yet made its unilateral declaration of independence, which, when it came (in November 1965), was to bring turmoil to the entire region. Zambia, with huge reserves of copper, was potentially rich. It was led by a man of some decency, Kenneth Kaunda, and, all in all, there was a sense of hope. I shared it.

The next decades, though, were not good for Africa. Political instability, economic stagnation, corruption and civil breakdown overtook many of its countries, and Zambia had its share of setbacks. Yet it suffered no military coup (overlooking a little incident in 1997), no civil war and certainly no genocide. To people outside its borders, its travails were portrayed more in the statistics of international reports than in images on the evening news. So how had things changed in out-of-the-way Lundazi?

Not much, to judge by the state of the road I was again travelling, 40 years on. The road is important to Lundazi. There is only one of significance, which runs the 186km (116 miles) from Chipata, which was called Fort Jameson—or, more familiarly, Fort Jim—until 1969. Chipata is the capital of the Eastern province, and pretty much the end-point of the Great East Road from the capital, Lusaka, so virtually everyone going to or from Lundazi uses the road from Chipata. In 1965 it was an unpaved artery, alternately hard and corrugated, then soft and sandy, always dusty and often, when unmarked bends or unseen chasms suddenly appeared, rather dangerous. That was in the dry season. In the rainy season it could be so muddy as to be impassable. Wet or dry, there would be monkeys in the trees, nightjars in the headlights and silent figures walking, running or mounted—often two at a time—on unlit bicycles. Sometimes, too, there would be huge trucks, throwing up clouds of dust and threatening to send any would-be overtaker hurtling into the bush.

The road has since been tarred, and a 4X4 can now bowl along the first 130km of the approach to Lundazi at some speed. But then, at Kazonde, the tar stops and thereafter, despite the patching and grading in progress, all vehicles must slow to little more than walking pace to navigate the slopes, trenches and pot-holes of the remaining 50km. Repairs had been started before but the contractors stopped work when they were not paid, and in 2004 locals removed many of the new metal culverts in order to fashion tools from them. The people here are so poor that all road signs—there are not many—are deliberately perforated, for otherwise they would soon be removed and turned into pots and pans.

Many sights along the road are unchanged after 40 years: the women carrying huge baskets on their heads, or bundles of logs, or drums of water; the broken-down lorries, one whose driver is asleep beneath the back axle, another whose sackclothed cargo has tumbled off and burst on the ground; the ox-carts, the bicycles, the wayside hawkers selling bananas, charcoal and sugarcane. But there are changes, too. For the first 60km going north, schools, brick houses and tin roofs suggest greater prosperity. The source of this seems to be a new diversification of crops. In the past, farming was almost entirely a subsistence affair with little grown except for maize, and the granaries visible from the road show that this remains the staple food. Now, though, there is evidence of cash crops: the tobacco sheds just outside Chipata and a store 115km beyond; two lorries laden with cotton; people selling sweet potatoes; patches of cassava under cultivation. And minds are evidently fed too. A sign at Lumezi points to a secondary school that was not there in 1965. More sinisterly, after 87km, an orphanage now stands by the road. This turns out to be a portent of one of the biggest changes since the 1960s.

Courage, Brother

Education had never been a priority for the authorities in Northern Rhodesia. The country had only three secondary schools for Africans in the mid-1950s, and two of those were run by churches. An expansion began in 1960, with talk of a secondary school for the capital of each of the seven rural provinces, but it was not until independence that one was opened in Lundazi. It was a simple affair: two classes to start with, all boys, four teachers (I was the fourth), few books and not much else. The dearth of equipment extended to hymn books, important as they were in a part of Africa which still showed the influence of David Livingstone and his Presbyterian beliefs. One or two hymns, however, had been cyclostyled, taught to the boys and committed to memory. "Courage, Brother, do not stumble" was particularly popular. Each day, morning assembly would start with the words, "We will now sing our hymn." A pause followed, just long enough to allow the possibility of suspense as to what the choice would be. Then, almost invariably, came, "Let us sing 'Courage, brother'," and the air swelled with a lowing of deep male voices.

The headmaster was Arthur Lewanika, a scion of the Lozi royal family whose kingdom, Barotseland, lay in western Zambia. He and his deputy, Roger Zulu, had been the only teaching staff until I and another recruit, Alfred Zaranyika, a Southern Rhodesian, arrived. Neither Alfred nor I had had any training as teachers, and I at least had no books for the lessons in French, maths and physics that I was supposed to give. It is difficult to believe that I taught anyone anything. Still, I had heard in Lusaka before returning to Lundazi that about ten of my former pupils had eventually graduated from university and some had become engineers (Alex Barton Manda), accountants (Major Mkandawire) or lawyers (Masuzu Zimba). At independence in 1964, the country had had fewer than 100 graduates.

All vehicles must slow to little more than walking pace to navigate the slopes, trenches and pot-holes

The students, who came from far and wide within the surrounding area, were boarders, and so the school was always busy. But life in Lundazi, a town of perhaps 2,000-3,000 in those days, was quiet. In the evenings, the only noises apart from human voices were the hiss of the Tilley lamps that provided our light—no electricity then—and the calls of the hyenas that sometimes ate the Lewanikas' chickens and often came right up to the house that Alfred and I shared. The main amusements were provided by the trials of daily life: Alfred's mile-long sprint pursued by a swarm of bees; my old car catching alight as I drove past the market one day; Alfred's attempt to extend the life of his car battery by warming it up in the oven, an experiment that caused Arthur huge amusement when "over-baking" led to muffled explosions and quantities of boiling acid that seeped on to our kitchen floor.

It was almost impossible to get a car mended in Lundazi, or even to replace a battery. The shops were basic. Food could be bought in the market and sometimes people would come to the door offering a (live) chicken or some oranges. But Alfred was always scornful about the lack of choice: people were so much more enterprising, he said, in Southern Rhodesia (that was, of course, before Robert Mugabe had done his best to wreck the country). Anything even slightly sophisticated—oil lamps, blankets, cloth for *chitenges*, the nearly universal garment for women in those days—was available only from the shops owned by "Asians", notably Mulla Stores, founded by old Mr Mulla, who had made his way to Lundazi from Gujarat via Mozambique in the 1930s.

For a drink or a meal out, the place to go was the Castle, which was presided over by Lyn Jonquière, the only other "European", as whites were then called, in Lundazi. The Castle was where visiting politicians, contractors and civil servants would stay. It was kept spick and span by Mrs Jonquière. Of an evening, she could be found behind the bar, genially dispensing cold Castles (the hotel shared a name with a popular beer) or Portuguese wine brought in from Mozambique, Zambia's neighbour to the east, while Jim Reeves played on the gramophone. Thanks to its generator, the Castle had electricity.

You do not need a generator today in Lundazi: electricity is (usually) available from the Malawian national grid across the border, and the Castle now has television. It does not, however, have running water—except through the roof in the rainy season. The building is in a sad state, though its new leaseholder, Chifumu Banda, promises improvements.

Mr Banda, a native of Lundazi who is now a prominent lawyer in Lusaka, had warned me that I would see that Lundazi was now "worse off". The school, though, is vastly improved. The four teachers and 70 or so students have become 43 teachers and 864 students, and they occupy a bigger site. Though no one remembers any of the original staff, Arthur's name is memorialised in the name of one of the four boarding houses. As for the students' names, neither their first nor their surnames seem to have changed much: there are Ndhlovus, Phiris, Nyirendas and Bandas galore, preceded perhaps by Best, Gift, Major, Mercy or Memory, even if, on this occasion, I meet no Time, Meat or Section Eight.

No more cocktails here

The school has its own water (pumped from three boreholes), a fish pond, four plump pigs and several sheep and goats. It grows its own vegetables. But only rarely do the students eat meat, and the relentless diet of *nshima*—maize porridge—has apparently provoked protests in the not-too-distant past. Little money has been available for maintenance, but broken windows are being replaced, prefects now have "executive neckties", the library contains a modest variety of books and there are ten computers, though not, as yet, an internet connection. (High telecoms charges and an overburdened relay station still keep most of Lundazi offline, though mobile phones have just arrived.) Another sign of change is that, in place of the "Procrastination is the thief of time" written on the blackboard by Alfred in 1965, a notice on a door now reads, "Don't trust corrupt politicians."

The new plague

Basic tuition is provided free, but the fees for boarding and any extra lessons come to nearly $200 a year, and uniform costs almost another $40. For most families, that is a fortune: about 70% of Zambians live on less than $1 a day. But in the past a family that could muster enough to start sending a child to school would usually be able to see the endeavour through. Today that is often untrue, simply because so many families are falling apart. In the list of students, the letter S (for a "single" orphan, ie, a child who has lost one parent) or D (for a "double" orphan) occurs ever more often against the names as the classes grow older: 14 in Grade Nine, 60 in Grade Ten. The cause is AIDS. In total, over 120 of the 864 students have lost one or both parents to this latter-day plague.

Lundazi is far from insouciant about AIDS. The district has an AIDS co-ordinator, Christa Nyirenda, who struggles to carry out her work in the face of a constant lack of money. The churches also do their best. The Rev Frighted Mwanza's Presbyterian church, for example, is helping to look after several orphans and 55 others who are HIV-positive, some of them chronically ill. And along the road from the Castle, the Thandizani (meaning "Let's help one another") centre also offers advice, support and HIV testing. Set up in 1999 in a former cocktail bar, whose name is still clearly legible outside, it is considered a model non-governmental organisation, but it does not offer treatment.

That is done at Lundazi district hospital, or rather it is meant to be done there. The difficulty is that the hospital is old (1950s vintage), has only two doctors (for all the 290,000 people in the district) and has to charge for the anti-retroviral drugs that can arrest the ravages of AIDS in infected people. The very poor, about 20% of those who receive these drugs, get them free; the others must pay about $10 a month. The result is that only 114 people are getting treatment out of more than 500 who are known to need it. In reality, hundreds, if not thousands, should be receiving drugs. That is evident both from the number of orphans in the school and from a sign not far from the hospital: "Coffin Workshop".

Fortunately, coffins are not the only source of new jobs in Lundazi. The second-hand clothes market that has sprung up is another. On a dusty patch of ground now stands rack upon rack of western clothes, made perhaps in China or other parts of Asia but already worn in Europe or America and then given away to charities to be sold, for very little, all over Africa, even in places like Lundazi. This phenomenon, known as *salaula*, explains why so few of the women along the road now wear *chitenges*, and also why a man on a bicycle too poor to have shoes may be wearing a formal dress shirt. The trade provides T-shirts and skirts and trousers for many who could not afford them in the past, and jobs for those who sell the clothes. But it has made it difficult for Zambian textile producers to compete; this is dumping in the true sense of the word.

More hopeful for Lundazi is the slow, belated improvement in agriculture. On the outskirts of town are some new tobacco sheds, built by Stancom, an American multinational. It provides loans to small farmers, trains them in agronomy and sells them seeds and fertiliser, as well as the saplings they must plant if they cut other trees down for fuel to flue-cure their crop. A Malawian company, Limbe Leaf, has also come to Lundazi, as have several cotton companies—Dunavant, an American firm, Clark Cotton, from South Africa, and Chipata Cotton, a Chinese joint-venture. Lundazi now accounts for about 12% of Zambia's cotton production, and there is talk of Dunavant building a ginnery.

For all these welcome developments, agriculture around Lundazi is woefully undeveloped. Many people have gone hungry in the past few months thanks to a poor harvest: instead of falling evenly through the 2004-05 growing season, the rains came all at once, mostly early on. Yet the land is good. It could provide much more food and cash crops too, perhaps two harvests a year, with proper irrigation. But only now are some of the dams of the colonial era being restored to use, after years of neglect and silting up.

Hope on hold

It is time to leave Lundazi. Outside Mulla Stores, which seems to have had not even a lick of paint in 40 years, a few people are chatting. One or two others are bicycling from the direction of the *boma*, the administrative centre. Here again not much has changed. The impression is reinforced on the journey back along the pot-holed road to Chipata, even after a brief stop to greet Father Morrison and the other Catholic Fathers at Lumezi mission. But then there are the signs, really quite a lot of them, to the schools: primary schools, "basic" schools (which give a couple of years of secondary education) and Lumezi's secondary school. That is encouraging. So is the farming. But every so often are reminders of a darker side of the new reality: branches, laid down on the road to indicate a funeral. Bicyclists are expected to dismount, and trucks and cars to slow down, out of respect. I assume, perhaps wrongly, that AIDS has claimed another vicitm.

I had been prepared for most of what I found in Lundazi: I knew that half a century ago Zambia and South Korea had had roughly the same income per person, and now Korea's was 32 times greater. So I was expecting the accumulated evidence of 40 years of needless poverty, misgovernment and dashed hopes. Many of those dashed hopes I shared. But my main regret was that, back in 1965, I had not been able, instead of French and physics, to

teach Korean studies, even if I had had no books. Perhaps it is not too late for someone else.

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Tibetans in exile

The wrong side of the mountains

Dec 20th 2005 | DHARAMSALA
From The Economist print edition

Reuters

In exile, Tibetans worry about life after the Dalai Lama

"WE ARE facing our own extinction," the 14th Dalai Lama, spiritual leader of the Tibetan people, warns an audience of 450 of his compatriots, before cheering them up with his habitual, chuckling, hopefulness. Most of the listeners have newly arrived in his seat in exile in Dharamsala in northern India, on the other side of the Himalayas from his homeland. Almost ever since he fled Tibet with some 80,000 followers, after China put down an uprising in 1959, he has been worrying about the threat to the existence of Tibetan civilisation. Every year it looms larger.

Out of a population of some 6m, 130,000 Tibetans are in exile, three-quarters of them in India. They have done well at keeping alive their traditions and their dreams of returning home. Two prospects are now making those dreams fade. The first is the imminent completion of a railway linking central Tibet with China. When it opens for passengers in 2007, the pace of immigration of Han Chinese will pick up. Tibetans, already a minority in cities, may simply be swamped.

Second, as the Dalai Lama himself puts it in an interview with your correspondent, is the fact that "my death would be a serious setback." This sounds odd from an incarnation of Avalokiteshwara, the Buddha of Compassion. It is also an understatement. Lobsang Nyandak Zayul, a minister in the exile government the Dalai Lama heads in Dharamsala, is starker: "There will be chaos. We really are scared."

The Dalai Lama, 70 last July, seems in rude health. But he will not live forever. His supporters argue that it is China that should worry, and seize the opportunity he is offering to reach an understanding with its Tibetan minority. Karma Gelek Yuthok, a monk who is the top civil servant in the education ministry, lists three reasons: no future leader will enjoy the Dalai Lama's command over Tibetan loyalties; he is asking not for independence, but merely "genuine autonomy" for Tibet; and he prohibits violence.

Since 2002, there have been four rounds of talks between the Dalai Lama's representatives and Chinese officials. Optimists see this as evidence that these arguments are beginning to work. But many Tibetans fear China just wants to placate international opinion and is playing for time. In this analysis, China sees the Dalai Lama not as the solution to its Tibet problem, but as the problem itself, which death will fix.

China knows that the deaths of Dalai Lamas, and the discovery of the next incarnation, have often involved intrigue, turmoil and division. There would be a search for the new incarnation—a gifted boy identified through

oracles, portents, clues left by his predecessor, and the intervention of senior lamas. During the interregnum, regional, religious and other tensions among Tibetans that the Dalai Lama's authority helps to conceal might resurface. The Dalai Lama has said that he will be reincarnated only if Tibetans still need the institution. It is hard to find a Tibetan, however, who does not think he will come back. The Dalai Lama expects the infant 15th to be found outside Tibet. After all, "the very purpose of reincarnation is to carry my task forward."

This prediction makes it harder for China to meddle in the reincarnation process. It does not, however, make it impossible. The senior lama traditionally most involved in identifying and tutoring a young Dalai Lama is the Panchen Lama. The tenth Panchen Lama died in 1989 and two young men—one recognised by the Dalai Lama and most Tibetans and another by the Chinese—carry the title of the 11th. The "Tibetan" panchen has been in custody since 1995 (for his own protection, says China). "Our Chinese brothers and sisters," explains the Dalai Lama, "have created complications." China might use both panchens to endorse a pretender to the Dalai Lama's succession.

The only person who might perhaps, in the short term, enjoy a little of the Dalai Lama's prestige among both Tibetans and foreigners, is Ogyen Trinley. He is claimant to the title of 17th Karmapa, the head of one of the main sects of the Kagyud, or "Black Hat" school of Tibetan Buddhism, which in the 17th century lost state power to the dalai lamas' own Gelugpa school.

Ogyen Trinley, recognised by both the Chinese government and the Dalai Lama as the incarnate Karmapa, was born in Tibet, but in 1999 fled to India. Now still only 20, the Karmapa lives in a Dharamsala monastery. On an October morning, his waiting room is crowded with a tour group from Hong Kong. The karmapas' international following has helped their sect grow rich, and fuelled a power struggle.

Reuters

Familiar but unrecognised

A promised "interview" with the Karmapa requires a permit from a sleepy Indian police station. It turns out to be a couple of questions squeezed into the end of a busy morning spent granting audiences to devotees, and draping khataks, white silken scarves, round their necks. Two panicky monks say that "political" questions are not allowed, and rush off to fetch a breathless official from the exiled government to reinforce the message.

The Karmapa, whose smile can light up the neighbourhood, seems tired and rather dour. After a few minutes, his interpreter snaps his notebook shut with authoritative finality. The Karmapa has just answered a question about whether he was right to leave Tibet: "I pray it was the proper decision."

It would not be surprising if he is having doubts. He seems to have traded one form of captivity for another. The Indian security around him is heavy. His travel is restricted. He is not allowed to visit his predecessor's seat in Sikkim, a Himalayan kingdom annexed by India in 1975. Nor, it appears, does he have the freedom others in India take for granted, to speak his mind. The Karmapa is in a delicate position. There is in India a rival claimant to the incarnation, with some influential backers. With much treasure at stake, the dispute has already involved fistfights in monasteries and courtroom battles, and could turn nastier still.

Some Tibetans think there are other factors, too, behind India's sensitivity about the Karmapa. His flight provoked some suspicions of Chinese connivance, and raised questions about his motives. If he is a Chinese agent, it is hard to imagine better cover. In exile, he is both living embarrassment to China and a threat to its hopes that, with the passing of the 14th Dalai Lama, its Tibet troubles will be over. India, intent on closer ties with China, probably does not want the Karmapa to antagonise Beijing.

Not just Hollywood

The fear that the Dalai Lama's death will be a disaster for the Tibetan cause looks justified. His fame as a Nobel-prize-winning guru and friend of the stars has produced little concrete benefit: no government recognises his. But top politicians as well as private citizens are drawn to him. Because of him, Tibet is sand in the wheels of China's drive to become a respected international citizen. And, under him, India has given Tibetans a home big enough to encompass the dream of cultural survival.

Even critics of Tibetan culture—with, for example, its mass monasticism, often starting in childhood—do not want its destruction. China has apologised for the ravages of the Cultural Revolution of 1966-76 and stresses its new-found respect for Tibetan tradition. In India, the idea of Tibet as a distinct culture with a vibrant future is kept alive in schools and monasteries. In Dharamsala, one of several "Tibetan Children's Villages" (TCVs) teaches—and houses—more than 1,900 children. Most were born in Tibet. Their parents sent them on the dangerous trek through high passes in the Himalayas, to receive a decent education in India.

One 12-year-old girl arrived just a couple of months ago with her seven-year-old sister, after an arduous month-long journey. Her mother brought them, and then risked arrest again to return to Tibet. Mother and daughters may never meet again. On arrival, the girl, who came from eastern Tibet, near what Tibetans regard as the border with China, spoke almost no Tibetan, although she was fluent in Chinese.

Most travel in the winter months, when the bitter cold and snow make it easier to escape detection (as well as to die of frostbite and hypothermia). The reasons for coming are economic as well as political. Some Tibetans cannot afford to put a child through a Chinese school. Some of their richer compatriots send children to school in China. Phuntsog Namgyal of the TCV says its "prime aim" is to inculcate a sense of Tibetan identity and culture. To his regret, because of a lack of Tibetan-language materials, and because the children have to sit Indian exams, the medium of instruction from age 11 is English.

AFP

Dickensian in Dharamsala

For many, a Tibetan education will not disguise the growing realisation that they will probably die in India. There must be a strong temptation to abandon Tibet as a lost dream and do as well as they can in the outside world. Dolma, a young Tibetan political-science student in Delhi, reckons that, if they had the chance to go back to a free Tibet tomorrow, half the young Tibetans in India would prefer to stay put.

The Dalai Lama, however, thinks only "a very small minority" are losing their Tibetan identity. Karma Gelek Yuthok, of the education ministry, is a self-confessed pessimist. He frets that the Tibetan schools in India have failed both in equipping children to win scholarships at the best Indian colleges, and in providing a grounding in Tibetan language and culture. This he feels especially keenly. Preserving the culture was, after all, "the core purpose of our coming into exile". Worse, he is worried about the "quality of human beings" the schools are turning out.

Young Tibetans abroad might become assimilated into exile, just as there are fears that those at home may grow up assimilated into China. Between 2,500 and 3,000 Tibetans still escape to India each year, mostly through Nepal. More than one-third are under 14 years old. Among adults, the largest groups are monks and nuns. India has branches of the most famous Tibetan monasteries. But at the audience in Dharamsala, there were lay-people of all ages, including the very old and infirm.

The journey to India is getting harder. Nepal is racked by insurrection, and in January King Gyanendra, to curry favour with China, ordered the shutting of the Dalai Lama's representative office, and of a Tibetan welfare centre, though the United Nations High Commissioner for Refugees and a transit centre still function. At a reception centre in Dharamsala, a handwritten poster from a newcomer tells of the rape of three Tibetan women in Nepal. It advises readers to tell their friends to travel in large groups.

The Tibet Transit School (TTS) near Dharamsala was founded in 1993 for arrivals from Tibet aged 18-30. A group of students give the usual three explanations for the decision to come to India: to see the Dalai Lama, to get an education and to flee the lack of opportunities at home. (The Dalai Lama himself, a pragmatic sort of idealist, adds a fourth: the belief that from India it is easy to secure entry to America.)

In some places, particularly in the eastern parts of historic Tibet now incorporated in the Chinese province of Sichuan, there is virtually no education available. TTS's director, Chhoeze Jampa, says three-quarters of his students have to start from scratch, learning to read and write. When he inaugurated the school, the Dalai Lama encouraged its students to return to Tibet later on. Mr Jampa says that 60% of his graduates have returned home, or tried to.

Two new arrivals, still at the reception centre, strapping young men in their 20s, were among just three out of a group of 51 who reached Nepal and India. They had each paid guides 4,000 yuan. That is nearly $500, a huge sum, which they made by selling caterpillar fungus, a prized Chinese medicine. Their parents had brought them up not to get into trouble with the Chinese authorities, and they had not told them their plans.

The group walked by night from Lhasa to the border. After 17 days' hiking, they were resting on a mountaintop when they were ambushed by Chinese police, who opened fire. The two escaped by ditching their luggage and hiding in the hollow of a riverbank. They finished the journey to the border with a seven-day walk without food or money, and sick from the cold.

Life back in their village, of settled nomads and farmers, was not so bad

Life back in their village, of settled nomads and farmers, was not so bad. There is even a school now, though it does not use Tibetan beyond the primary years, and it came too late for them. They endured this ordeal simply to see the Dalai Lama. This they achieved, at the audience. Given the chance to call their village to leave a message for their parents that they are safe, the first, tearful, news one tells the friend who answers the phone is that they have seen His Holiness. ("He looks just 40!")

When they left home, they meant simply to make their pilgrimage and return, smuggling tapes and pictures of the Dalai Lama for the friends they left behind. Having heard, however, that they could attend TTS, they made plans to stay five years. This resolution was already wavering after the phone call home.

No direction home

Most exiles in India, however—some 100,000 of them—are there for the long haul. Tsultrim Dorgee Chunang, general secretary of the Tibetan Youth Congress (TYC), loyally puts the Dalai Lama's lifespan at 110. Even so, he argues, Tibetans should be preparing for life without him, but are not. The Dalai Lama himself has, in his way, done his bit to prepare them. He has imposed a sort of democracy. There is a largely elected, 46-member, parliament and, since 2001, a directly elected prime minister.

However, there is something in Mr Chunang's charge that many exiled Tibetans refuse to take responsibility for their own futures because they rely on the Dalai Lama. The Tibetan Women's Association, for example, went through a protracted debate over its stand on the Dalai Lama's proposal of a "middle way" short of full independence. The conclusion was to follow the Dalai Lama, whatever his position may be.

The TYC has not dropped the demand for independence, but does not criticise the Dalai Lama. Mr Chunang says it would see autonomy only as a stepping-stone to independence, and that the TYC's commitment to non-violence might weaken when the Dalai Lama dies. The railway will make an obvious terrorist target.

This sort of talk allows China, which professes not to understand such differences of opinion, to accuse the Dalai Lama of insincerity. But it is also why so many Tibetans fear the Dalai Lama's death and urge China to make the most of his willingness to compromise. The Dalai Lama himself takes encouragement from stirrings of sympathetic interest in Tibet within China, and from his conviction that China's "totalitarian system" will change.

"If you look locally," he concedes, "it is almost hopeless."But from a broader perspective, there's hope." China's continued vilification of the Dalai Lama personally, however, gives little hint of a readiness to treat with him. Rather, it speaks of an aggressive rising power determined the Dalai Lama will die on the wrong side of the mountains, and the wrong side of history.

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TRIUM GLOBAL EMBA
APPLY YOURSELF >>

Japan's humanoid robots

Better than people

Dec 20th 2005 | TOKYO
From The Economist print edition

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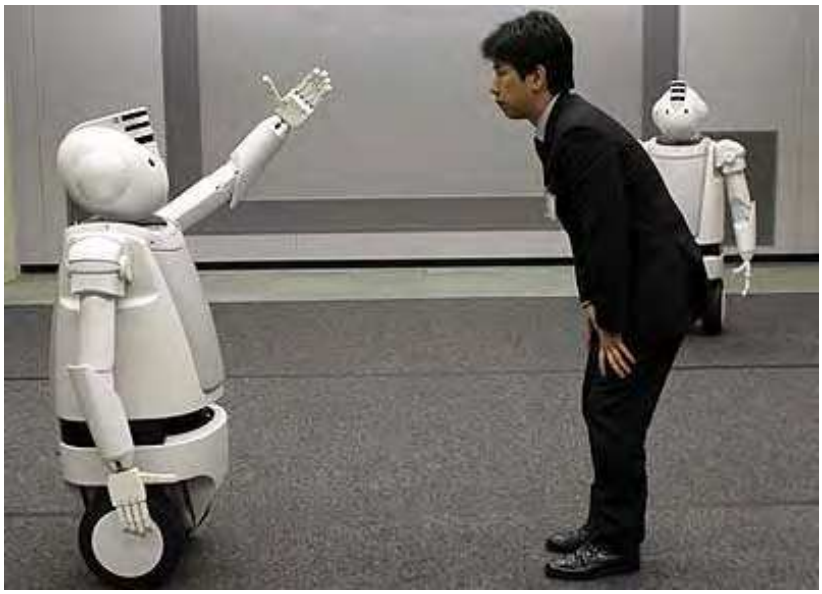

Why the Japanese want their robots to act more like humans

HER name is MARIE, and her impressive set of skills comes in handy in a nursing home. MARIE can walk around under her own power. She can distinguish among similar-looking objects, such as different bottles of medicine, and has a delicate enough touch to work with frail patients. MARIE can interpret a range of facial expressions and gestures, and respond in ways that suggest compassion. Although her language skills are not ideal, she can recognise speech and respond clearly. Above all, she is inexpensive . Unfortunately for MARIE, however, she has one glaring trait that makes it hard for Japanese patients to accept her: she is a flesh-and-blood human being from the Philippines. If only she were a robot instead.

Robots, you see, are wonderful creatures, as many a Japanese will tell you. They are getting more adept all the time, and before too long will be able to do cheaply and easily many tasks that human workers do now. They will care for the sick, collect the rubbish, guard homes and offices, and give directions on the street.

This is great news in Japan, where the population has peaked, and may have begun shrinking in 2005. With too few young workers supporting an ageing population, somebody—or something—needs to fill the gap, especially since many of Japan's young people will be needed in science, business and other creative or knowledge-intensive jobs.

Many workers from low-wage countries are eager to work in Japan. The Philippines, for example, has over 350,000 trained nurses, and has been pleading with Japan—which accepts only a token few—to let more in. Foreign pundits keep telling Japan to do itself a favour and make better use of cheap imported labour. But the consensus among Japanese is that visions of a future in which immigrant workers live harmoniously and unobtrusively in Japan are pure fancy. Making humanoid robots is clearly the simple and practical way to go.

Japan certainly has the technology. It is already the world leader in making industrial robots, which look nothing like pets or people but increasingly do much of the work in its factories. Japan is also racing far ahead of other countries in developing robots with more human features, or that can interact more easily with people. A government report released this May estimated that the market for "service robots" will reach ¥1.1 trillion ($10 billion) within a decade.

The country showed off its newest robots at a world exposition this summer in Aichi prefecture. More than 22m visitors came, 95% of them Japanese. The robots stole the show, from the nanny robot that babysits to a Toyota that plays a trumpet. And Japan's robots do not confine their talents to controlled environments. As they gain skills and confidence, robots such as Sony's QRIO (pronounced "curio") and Honda's ASIMO are venturing to unlikely places. They have attended factory openings, greeted foreign leaders, and rung the opening bell on the New York Stock Exchange. ASIMO can even take the stage to accept awards.

The friendly face of technology

So Japan will need workers, and it is learning how to make robots that can do many of their jobs. But the country's keen interest in robots may also reflect something else: it seems that plenty of Japanese really like dealing with robots.

Few Japanese have the fear of robots that seems to haunt westerners in seminars and Hollywood films. In western popular culture, robots are often a threat, either because they are manipulated by sinister forces or because something goes horribly wrong with them. By contrast, most Japanese view robots as friendly and benign. Robots like people, and can do good.

The Japanese are well aware of this cultural divide, and commentators devote lots of attention to explaining it. The two most favoured theories, which are assumed to reinforce each other, involve religion and popular culture.

Most Japanese take an eclectic approach to religious beliefs, and the native religion, Shintoism, is infused with animism: it does not make clear distinctions between inanimate things and organic beings. A popular Japanese theory about robots, therefore, is that there is no need to explain why Japanese are fond of them: what needs explaining, rather, is why westerners allow their Christian hang-ups to get in the way of a good technology. When Honda started making real progress with its humanoid-robot project, it consulted the Vatican on whether westerners would object to a robot made in man's image.

Japanese popular culture has also consistently portrayed robots in a positive light, ever since Japan created its first famous cartoon robot, Tetsuwan Atomu, in 1951. Its name in Japanese refers to its atomic heart. Putting a nuclear core into a cartoon robot less than a decade after Hiroshima and Nagasaki might seem an odd way to endear people to the new character. But Tetsuwan Atom—being a robot, rather than a human—was able to use the technology for good.

Getty Images

The country is lucky to be uninhibited by robophobia

Over the past half century, scores of other Japanese cartoons and films have featured benign robots that work with humans, in some cases even blending with them. One of the latest is a film called "Hinokio", in which a reclusive boy sends a robot to school on his behalf and uses virtual-reality technology to interact with classmates. Among the broad Japanese public, it is a short leap to hope that real-world robots will soon be able to pursue good causes, whether helping to detect landmines in war-zones or finding and rescuing victims of disasters.

The prevailing view in Japan is that the country is lucky to be uninhibited by robophobia. With fewer of the complexes that trouble many westerners, so the theory goes, Japan is free to make use of a great new tool, just when its needs and abilities are happily about to converge. "Of all the nations involved in such research," the *Japan Times* wrote in a 2004 editorial, "Japan is the most inclined to approach it in a spirit of fun."

These sanguine explanations, however, may capture only part of the story. Although they are at ease with robots, many Japanese are not as comfortable around other people. That is especially true of foreigners. Immigrants cannot be programmed as robots can. You never know when they will do something spontaneous, ask an awkward question, or use the wrong honorific in conversation. But, even leaving foreigners out of it, being Japanese, and having always to watch what you say and do around others, is no picnic.

It is no surprise, therefore, that Japanese researchers are forging ahead with research on human interfaces. For many jobs, after all, lifelike features are superfluous. A robotic arm can gently help to lift and reposition hospital patients without being attached to a humanoid form. The same goes for robotic spoons that make it easier for the infirm to feed themselves, power suits that help lift heavy grocery bags, and a variety of machines that watch the house, vacuum the carpet and so on. Yet the demand for better robots in Japan goes far beyond such functionality. Many Japanese seem to like robot versions of living creatures precisely because they are different from the real thing.

An obvious example is AIBO, the robotic dog that Sony began selling in 1999. The bulk of its sales have been in Japan, and the company says there is a big difference between Japanese and American consumers. American AIBO buyers tend to be computer geeks who want to hack the robotic dog's programming and delve in its innards. Most Japanese consumers, by contrast, like AIBO because it is a clean, safe and predictable pet.

AIBO is just a fake dog. As the country gets better at building interactive robots, their advantages for Japanese users will multiply. Hiroshi Ishiguro, a robotocist at Osaka University, cites the example of asking directions. In Japan, says Mr Ishiguro, people are even more reluctant than in other places to approach a stranger. Building robotic traffic police and guides will make it easier for people to overcome their diffidence.

Karl MacDorman, another researcher at Osaka, sees similar social forces at work. Interacting with other people can be difficult for the Japanese, he says, “because they always have to think about what the other person is feeling, and how what they say will affect the other person.” But it is impossible to embarrass a robot, or be embarrassed, by saying the wrong thing.

To understand how Japanese might find robots less intimidating than people, Mr MacDorman has been investigating eye movements, using headsets that monitor where subjects are looking. One oft-cited myth about Japanese, that they rarely make eye contact, is not really true. When answering questions put by another Japanese, Mr MacDorman's subjects made eye contact around 30% of the time. But Japanese subjects behave intriguingly when they talk to Mr Ishiguro's android, ReplieeQ1. The android's face has been modeled on that of a famous newsreader, and sophisticated actuators allow it to mimic her facial movements. When answering the android's questions, Mr MacDorman's Japanese subjects were much more likely to look it in the eye than they were a real person. Mr MacDorman wants to do more tests, but he surmises that the discomfort many Japanese feel when dealing with other people has something to do with his results, and that they are much more at ease when talking to an android.

Eventually, interactive robots are going to become more common, not just in Japan but in other rich countries as well. As children and the elderly begin spending time with them, they are likely to develop emotional reactions to such lifelike machines. That is human nature. Upon meeting Sony's QRIO, your correspondent promptly referred to it as “him” three times, despite trying to remember that it is just a battery-operated device.

What seems to set Japan apart from other countries is that few Japanese are all that worried about the effects that hordes of robots might have on its citizens. Nobody seems prepared to ask awkward questions about how it might turn out. If this bold social experiment produces lots of isolated people, there will of course be an outlet for their loneliness: they can confide in their robot pets and partners. Only in Japan could this be thought less risky than having a compassionate Filipina drop by for a chat.

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America's most-hated companies

The very bottom line

Dec 20th 2005 | NEW YORK
From The Economist print edition

A roll-call of commercial vilification

AMERICA loves a winner. Almost every business magazine and trade publication compiles its annual list of the fastest-growing or the finest-managed or the farthest-seeing companies in its universe. But what happens at the other end of the scale? Which are America's most hated companies, and why? None claims the title publicly, yet some must deserve it. This deeply unscientific stab at an answer relies mainly on a searching of databases, a trolling of blogs, and conversations with business-school professors across the country. Polling and focus-group data have been sought but not always obtained. "Our clients would so like not to be included in this project", explained one corporate-reputation consultant. Any conclusions which may inadvertently be reached should be viewed as provisional, anecdotal and, above all, not actionable.

James Hoopes, a professor of business ethics at Babson College in Massachusetts, suggests reaching back to the end of the 18th century for the first enterprise to provoke public loathing. That, he says, would be the First Bank of the United States, founded in 1791, which did the work of a central bank even though private investors held most of its shares. Jeffersonians denounced it as an unconstitutional victory of commerce over farming. Refounded in 1816 as the Second Bank of the United States, it over-lent wildly and then called in its money, sparking financial panic. President Andrew Jackson ended its special status in 1836. Five years later, as an ordinary commercial bank, it went bust.

That was a true one-off. Big business in a rough-edged version of its modern form arrived with the robber barons of the late 19th century. That era's most-hated company, though by no means the worst of them, was Standard Oil, a monopoly founded by John D. Rockefeller in the 1870s, and finally broken up by court order in 1911. Standard Oil was America's "first and reigning champion of public wrath", says George David Smith, a professor at New York University's Stern School of Business.

To corner the market in infamy (as well as in refining capacity) might seem a harsh fate for a company that was not particularly malevolent by the exacting standards of its time, and really quite laudable in an historical perspective. (For a bona fide bad-hat, Jay Gould was probably the top contender; see article.) The efficiencies and economies of scale achieved by Standard Oil helped the whole world to industrialise and grow richer. The firm's success may well have left all Americans better off, save for the competitors that it drove out of business.

But still Americans chafed at it, says Mr Smith, because "Throughout our history we don't mind that people become rich but we do mind that people become powerful. Standard Oil had the first real problem with that among public

companies.” Rockefeller's empire became, says Mr Smith, “a proxy for everything that Americans feared—and what they feared was a concentration of power.”

Here Americans diverged sharply from Europeans, who have been much more comfortable with concentrations of power manifested in big government and nationalised industries. Where Americans fret about trusts and combinations that stifle future winners, Europeans fret about unbridled competition that guarantees future losers.

To be fair on Standard Oil, it could also be a pretty nasty operator when it chose. Rockefeller conspired with railway companies to ensure that his rivals would pay much higher freight charges than he did, and that their payments would secretly cross-subsidise discounts for Standard Oil. That cost disadvantage left independent refiners with a choice between going bust over time, or selling out to Standard Oil for the scrap value of their plant. And the more Standard Oil grew, the more people's feet it stepped on. If it cut prices, competitors complained about unfair competition. If it raised prices, consumers complained about gouging. A top Standard Oil manager, William Warden, wrote in 1887 that the firm, albeit “a success unparalleled in commercial history”, was viewed almost everywhere as “the representative of all that is evil, hard hearted, oppressive [and] cruel.”

The Wall Street Crash of 1929 spread its shock and misery so indiscriminately that no one corporation could be held accountable for it—though National City Bank, and its president, Charles Mitchell, did more than their share of running the market up. The system took the blame, as it did for the depression which followed in the 1930s. The 1940s and 1950s were golden decades for big business, when America's leading companies basked in the admiration of a diligent public. Prosperity was advancing more evenly across society, and no industrial revolution intervened to create a provocative new monopoly in a leading industry, in the manner of Standard Oil and, later, Microsoft.

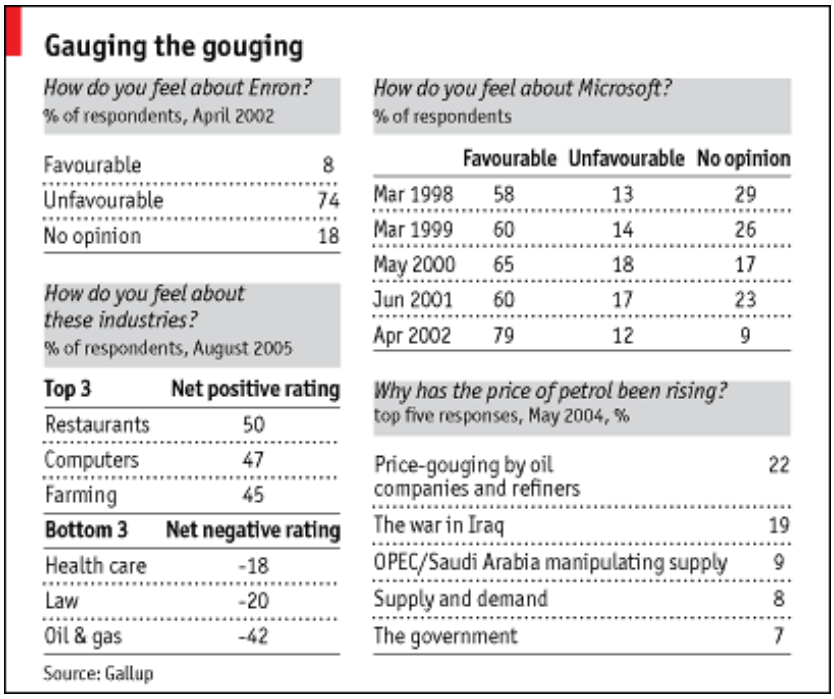
Hostilities between business and society resumed in the 1960s with the Vietnam War and the rise of rebellious baby-boomers. Student demonstrators marched against many things that decade, but rarely as often as they did against Dow Chemical, maker of napalm and Agent Orange. Dow was on its way to earning a lifetime achievement award for the courting of controversy. In the 1980s and 1990s the silicone breast implants which it produced jointly with Corning, a glass company, gave rise to an unfounded public health scare and class-action suits costing up to $3.2 billion. In 2001 Dow Chemical bought Union Carbide, operator of a plant at Bhopal in India, where a leak of toxic chemicals in 1984 produced the biggest industrial disaster of modern times. If Dow Chemical did not find itself in the headlines from time to time, that was scarcely for want of trying.

No smoke without fire

Between the mid-1960s and the mid-1990s the American public went sour on a whole industry: big tobacco. Fair enough, many would say. “If you are killing people, it doesn't matter whether you are creating shareholder value, you are still bad,” observes Mason Carpenter, a professor at the University of Wisconsin-Madison School of Business. Yet the American public has gone on liking alcohol companies and, for the most part, fast-food companies, even though their products also ruin many people's heath. The key difference, probably, was the growing belief in the dishonesty of tobacco firms. The industry had fought off private lawsuits for 30 years by insisting, in effect, that it knew no more about the hazards of smoking than anybody else did. But as scientific evidence mounted and company documents were leaked, the public lost faith. Now, “probably everybody thinks of tobacco companies as being intrinsically bad,” says Stern's Mr Smith.

Set against big tobacco, Microsoft looks positively benign. And, in every significant way, it is. Its frequent designation as a most-hated company from the late-1980s onward always owed more to the quality than to the quantity of its critics—computer users with infinite scope to air their views through e-mail and the internet. Probably never was a company insulted so ingeniously and elaborately. Type “hate Bill Gates” into Google even now, and you will probably get over 15,000 hits. Type “love Bill Gates”, and on a good day (for Mr Gates) you may get 2,000.

The ubiquity of Microsoft's operating system was frustrating enough for consumers accustomed to exercising choice elsewhere in their lives. The company made things worse by managing its ruthlessness clumsily, trying to conquer every other software and internet market worth having. But the verdict of history will be kind. By popularising and standardising personal computing, Microsoft laid the foundations of an industrial and technological revolution too big for any one company to control. Most Americans applauded this achievement, even while the federal government was trying to break up Microsoft (see chart).



Gauging the gouging

How do you feel about Enron?
% of respondents, April 2002

Favourable	8
Unfavourable	74
No opinion	18

How do you feel about these industries?
% of respondents, August 2005

Top 3	Net positive rating
Restaurants	50
Computers	47
Farming	45
Bottom 3	**Net negative rating**
Health care	-18
Law	-20
Oil & gas	-42

Source: Gallup

How do you feel about Microsoft?
% of respondents

	Favourable	Unfavourable	No opinion
Mar 1998	58	13	29
Mar 1999	60	14	26
May 2000	65	18	17
Jun 2001	60	17	23
Apr 2002	79	12	9

Why has the price of petrol been rising?
top five responses, May 2004, %

Price-gouging by oil companies and refiners	22
The war in Iraq	19
OPEC/Saudi Arabia manipulating supply	9
Supply and demand	8
The government	7

But enough of even-handed judgments. The end of the 1990s brought a company with nothing to be said for it whatsoever. Few would dispute Enron's right to the title of America's most-hated company, at least since Standard Oil. Nominally an energy company, Enron filed for bankruptcy in 2001 after inflating its balance sheet with so many dodgy asset-financing deals that nobody outside the boardroom understood quite what it was doing other than misusing shareholders' money. “Basically bandits”, says Mr Carpenter. “There is a BS factor there that makes people feel very strongly negative,” says David Kirsch, a professor at the University of Maryland's Robert H. Smith School of Business. “An authentic emblem of corporate corruption, and will remain so another hundred years from now,” according to Stern's Mr Smith.

Much the same might be said of WorldCom, a telecoms firm which combined the worst features of the dotcom boom with those of an Enron-style accounting scandal. After declaring bankruptcy, Worldcom was reborn as MCI, then bought in 2005 by Verizon, another big telecom firm. Its former boss, Bernie Ebbers, was jailed for 25 years.

A straw poll by Fred Bateman, a professor of economics at the University of Georgia's Terry College of Business, brings us to the present. He asked three classes in economics, about 100 students in all, which company they thought was the most hated in America. They almost all said Wal-Mart.

And, in its darker moments, Wal-Mart might almost half-agree. For the past two or three years it has endured spikes of public hostility provoked by labour unions that want to organise in its stores, communities that want to shut it out to safeguard local commerce, and by periodic rows over claims that Wal-Mart was using illegal immigrants as cleaners, paying its staff so little that they relied on welfare benefits, and systematically underpaying female workers. Having tried at first to stare down its critics, Wal-Mart has moved in the past year to recruit a high-powered team of lobbyists and consultants, including former advisers to Ronald Reagan and Bill Clinton, to manage its image and interests more actively.

As with Microsoft, Wal-Mart is loved at least as much as it is hated, often by the same people. You can hate its market power while loving its low prices, though these are two sides of the same coin. “What they do, they do really well,” says Mr Kirsch, “and they share the benefits. If they can get a thing 10% cheaper, then 5% goes to the shareholders and 5% to the customers. It's that simple. But we get back to the inherent problem of size. Big boxes in small towns. When you get very big you are bound to do things that will piss people off.”

Any trot this brisk through a century of pissed-off people will risk neglecting many corporate reputations worthy of separate discussion—Manville, McDonald's and Martha Stewart, for example, to pause only at the Ms. But still, a few general truths emerge. The main one is that Americans are generally accepting of big business, but only so long as they feel in control of it, as citizens or as consumers. They lose that sense when a company wins a monopoly for its products, or when it comes busting into a community and displacing local commerce, or when its officers break the law. When that happens, they are disproportionately shocked and hostile, because they see it as a violation both of the natural order of things, and of their trust. But so long as that does not happen, business can get on with its job of making and selling things, almost whatever they may be. Americans are not unduly excited about arms makers, for example, or sellers of genetically modified crops. Monsanto may be the most-hated American company in Europe, but it is scarcely noticed in America.

Where is public hostility turning next? Big oil is one target. Unlike in Europe, where governments get most of the blame for high petrol prices, because taxes account for so much of the final cost, the American public holds oil firms mainly responsible. No surprise, then, that while oil prices have been soaring in 2005, esteem for oil companies has been plummeting. A Gallup poll in August found that 42% of Americans disliked the oil industry, including 35% who disliked it very much indeed. *Plus ça change*, as John D. Rockefeller might say.

Clarification

National City Corporation of Cleveland, Ohio, asks us to make clear that it is not related to the National City Bank

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Jay Gould

A bad-hat baron

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Excerpts from the New York Times obituary of Jay Gould, railway tycoon and stockmarket speculator

JAY GOULD was an operator pure and simple, although in a general way of speaking he was as far as possible from pure and as far as possible from simple... The total of his gains is estimated at something like seventy millions. This is one of the great fortunes of America, and there is no other great fortune comparable to it in amount that has been attained by the same means... It is simply the measure of the success that has attended the skill of its founder in intercepting the earnings of other people and diverting them from their natural destination...

He has simply absorbed what would have been made in spite of him and what, if he had not interfered, would have been possessed by somebody else. We cannot say this of Astor or Vanderbilt or Stewart. In serving their own ends they were serving public ends, while Gould was a negative quantity in the development of the country where he was not an absolutely retarding and destructive quantity.

The common term of reproach against an "operator" is that he is a gambler, but it would be very unjust to apply this term to Gould. It is not properly applicable to a player who stocks the cards or loads the dice beforehand... What he aimed at, and what he often attained, was as great a certainty in the operations of the Wall Street game as is attainable in the most legitimate lines of business. Of course it is difficult to attain this degree of certitude, and the difficulty is enhanced by the restrictions of the criminal law. These restrictions he evaded with remarkable success...

It seems to be agreed that he acquired a detailed knowledge of some of the corporations in which his winnings were invested, that he chose able and skilful men to superintend them, and that they were intelligently administered at least for the good of their owners. But after all, upon such a point, we must accept as final the judgement of "The Street". The advances of two or three points, upon the day when Gould's death was announced, in the quotations upon the securities of every one of the corporations with which his name was particularly identified, shows that his death was regarded as the removal of a danger even from these corporations...

It ought not to pass unnoticed that Gould never sought to propitiate public opinion. His spasmodic efforts to affect it in favour of his interests in any one of the newspapers which he from time to time owned or controlled were singularly maladroit and uncouth... He seems to have relied upon the American worship of money, however got, as sufficient to secure his "position", and, at any rate, he never gave himself the trouble of making any false pretenses.

Accordingly, any remarks upon him, now that he is dead, which do not sharply distinguish him from men who have acquired wealth in the pursuit of useful ends by honourable means, must have a corrupting and demoralizing effect upon the young men of the United States.

December 3rd 1892

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Capitalism and sex-toys in China

Family values

Dec 20th 2005 | SHANGHAI AND WENZHOU
From The Economist print edition

Imaginechina

A case-study in entrepreneurship

THE day the Wu clan formally reopened its ancestral temple was a festive one. In the brutal era of Mao Zedong, the temple (which is over 700 years old) was destroyed and clan elders hid the Wu family archives from Red Guard fanatics. Puritanical communists despised the ancient kinship networks that had traditionally been a crucial support to aspirants in business or politics.

More recently a privately owned machinery factory sat in the temple grounds. Now the factory had been razed and the Wu temple restored to its glory by a dirty river. Houses were draped with red banners and bunting. Firecrackers scattered the demons, and clansmen from far and wide filed into the incense-filled hall to bow before portraits of the clan's ancestors. The hero of that spring day in 2003, greeting guests, and leading a noisy parade through the streets, was Wu Zhenwang: acting chief of the local Wu clan, rebuilder of the temple, and China's sex toy king.

Chief Wu's name tops the list of donors to the temple displayed in the entrance. He is the wealthiest Wu they know in Yongqiang, a satellite town of Wenzhou, a city 365km (227 miles) south of Shanghai famed for its embrace of raw capitalism. And Chief Wu's risqué line of products? No concern about that. He has done well, and in Wenzhou that is what counts. In the clan register they proudly point not only to Chief Wu's name, but also to those of his three sons who help him control much of China's burgeoning production, domestic sales and exports of "items for adult use". Theirs is a very traditional Chinese family-run business.

Private businesses have proliferated in China since the early 1990s, thanks to the Communist Party's gradual abandonment of efforts to keep them in check. A few have now grown to significant size. This has raised questions in China about whether the kind of dynastic business empires run by ethnic Chinese that have been a prominent feature of many Asian economies will emerge in China itself. The Communist Party grudgingly opened its doors to private entrepreneurs only three years ago. But it remains uneasy about the age-old practice of keeping businesses under patriarchal control and handing them down through the male line.

And it is just as uneasy about sex, although the visitor to the Wu showroom in Wenzhou, run by the 36-year-old eldest son, Wu Wei, might not believe it. Mr Wu pauses only briefly in the first section, adorned with reproductions of antique Chinese paintings of copulating couples. He points to one showing women in classical attire buying

dildos from a street merchant. “Look, they used them in those days”, he says, as if to justify with historical precedent what comes next.

Mr Wu ushers the visitor into the main exhibition: row upon row of sex toys in a rainbow array of rubber, plastic, leather and—he proudly asks your correspondent to squeeze this one—a sponge-like material designed to simulate the texture of female flesh. Hung on one wall is a macabre line of near life-size inflatable dolls, their rouged mouths agape as if in horror at the implements before them: the Vertical Double Dong, the Occidental Vagina, the Waterproof Warhead Vibe (“Bathtime was never this fun”) and a variety of black leather and metal goods for fans of sadism and masochism (for overseas markets, that is; the Wus see S&M potential in China too, but party cadres do not).

The production lines themselves are off-limits to most visitors. Many of the workers are young peasant women, perhaps not eager to be seen putting the finishing touches to a Christmas Lover vibrator. Elder Brother Wu says that despite higher than average wages at the factory, about a third of job seekers withdraw their applications when they find out what they would be doing. But ironically it is China's sexual conservatism that has enabled the Wus to corner a market and prosper.

China's new private businesses have often done best where state-owned enterprises, until a few years ago the economy's mainstay, have been too sluggish (or prudish) to respond to rapidly evolving markets. The Wu family spotted their chance after China's first sex-toy shop opened in Beijing in 1992. Chief Wu, who owned an electrical machinery business, took his family to have a look. They noticed that the products were mostly imported and very expensive. Thanks to his good connections with local officials (a prerequisite of success for the Chinese entrepreneur) and effective lobbying in Beijing, he was able to get permission to produce them in Wenzhou.

With no other local government daring enough to follow suit, the Wus monopolized production and expanded rapidly thanks to strong demand from overseas companies for made-to-order sex toys. Unlike most Chinese family-run businesses, which resist diluting ownership, Wenzhou Lover Health Products saw the benefit of forming a joint-venture. They chose as their minority partner a Japanese sex-toy maker to take advantage of its knowledge of the relevant technology and contacts in foreign markets.

Imaginechina

Family-run businesses in China have to survive by their wits rather than official patronage

At home, sex-toy shops spread rapidly—few of them officially licensed but all eager for the low-priced goods that the Wu business had to offer. Such is the power of Chinese consumerism that, for all the party's disdain, sex shops became more commonplace in urban China than they are in most western cities. The Wus defend their products to sometimes sceptical officials by arguing that they help promote marital harmony, deter men from seeking prostitutes and keep the population in check by allowing people to relieve their frustrations without engaging in real sex.

Some of Asia's biggest Chinese family-run businesses have prospered in the last century by gaining monopolistic or oligopolistic control of markets thanks to good official connections. If any company in China enjoys privileges in a market, it is almost invariably state-owned. The Wus' monopoly eventually eroded as other local governments, sensing tax opportunities, began to lose their inhibitions.

The virtues of self-reliance

Several privately run competitors to the Wu family business have sprung up along the coast from the industrial rustbelt of Liaoning in the north-east to Guangdong in the south, turning China into the world's biggest producer of masturbatory aids. Last year Shanghai began hosting an annual sex-toy trade fair. Elder Brother Wu says his company still has about 60% of the domestic market, but prices and profit margins are dropping.

Family-run businesses in China must survive more by their wits than by official patronage or the cheap credit that state-owned firms enjoy. State-owned banks often turn up their noses at private businesses, and most of the

companies approved for listing on China's stock exchanges are state-controlled.

The Wu family empire is trying to adjust to the rapid evolution of China's sex-toy industry. Brother number two, 35-year-old Wu Hui, is spearheading the effort. His company (the three brothers' businesses are separate but interdependent) has exclusive control of the distribution of the Wus' products in China. He believes that profits can be sustained only if more value is added to the company's brands: Loves, LustyCity and Daily Planet.

The way to do this, Wu Hui says, is to set up chain-stores across the country to give the products a more upmarket image. Unlike the grubby little stores around China offering “health protection items”, the franchised outlets would have trained staff. Storefronts would be clearly branded in red and yellow with a sun and moon logo. Wu Hui and the youngest brother, Wu Xiao (who runs the retail business in Shanghai), already own 20 or so. The plan is to have 1,000 of them across the country, beginning with at least two in each provincial capital. A training centre for franchisees (who will pay some $74,000 for a license and keep any profits) will be set up in Shanghai, as well as a new factory.

But making it big and staying big as a family-run business in China is fraught with difficulty. (Despite its growth, the factory in Wenzhou would count only as a small- to medium-size enterprise.) The odds of making it to the top will long remain stacked in favour of state-owned firms. Only 15% of China's biggest 500 companies are privately owned. Their combined capital amounts to less than 3% of the list's total, even though private enterprises now contribute some 60% of China's GDP. None is in the top 50. The biggest family-run business, an agricultural conglomerate controlled by four brothers, the Hope Group, ranks a mere 105.

Several of China's most prominent private businesspeople have ended up in prison in recent years. In a world where rules quickly change, few trust or respect the law, and big profits can be made in grey areas of ill-regulated markets, the legitimacy of almost any businessman's wealth is open to question. The rich therefore become easy targets if they fail to keep on the right side of officialdom. Many prefer to avoid media attention and find ways of keeping their gains in havens abroad.

Another obstacle to dynastic businesses is demographic. Mr Wu the elder, who is 59, had his three sons before China imposed its one-child policy in the late 1970s. Each of the three sons, however, has only one son. This leaves little room for manoeuvre should any of them lack business acumen, or the imperviousness to embarrassment that is required to sell synthetic genitalia. The likelihood, however, is that growing numbers of China's nouveaux riches will ignore family-planning policies and have as many children as they can afford to pay the fines for.

Chief Wu would be considered blessed in having three sons to choose from. In Chinese tradition, daughters are considered to have left the family when they marry and hence are unlikely to inherit a father's business. Chief Wu's 20-year-old daughter's name is not even recorded in the clan records. She spent a few weeks working in the Wenzhou factory, but decided to pursue studies in America rather than go into the family business.

Successful private enterprises in China were founded only within the past few years, making the problem of succession from the first to second generation (Chief Wu to his sons) a new one. The trickier transition from second to third generation is still several years away. A report this year by the China Enterprise Confederation in Beijing said that a “sizeable proportion” of family-run businesses lacked capable successors yet remained very unwilling to groom outsiders. And with no promise of a significant stake in a business, professional managers are hard to recruit.

As perhaps befits his junior ranking in the family, the youngest son, Wu Xiao, says he does not share his father's enthusiasm for clan activities (“it's just for old people”). And he is all for rewarding talented employees with shares in the business. “The family style of ownership prevents the progress of an enterprise,” he says. But Wu the younger is as enthusiastic as his brothers when it comes to the promise of the trade itself. If only the party would ease up on pornography, he says, that would be a tremendous boost to the industry. But, he laments, that is unlikely to happen at least until his baby son grows up.

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Deloitte.

Frequent-flyer miles

Funny money

Dec 20th 2005
From The Economist print edition

Who will cheer loudest when frequent-flyer miles celebrate their 25th birthday?

THE mania began in 1981, when American Airlines launched AAdvantage, the world's first mileage-based frequent-flyer programme, to encourage customer loyalty. Today more than 130 airlines issue miles, and according to Randy Petersen, the founder of *InsideFlyer* magazine, 163m people around the globe collect miles of some sort. Indeed, calculations by *The Economist* in January 2005 suggested that the total stock of unredeemed miles was worth more than all the dollar bills in circulation. The record for the biggest individual account is 25m miles (enough to fly from London to Sydney and back 250 times), reputedly belonging to a publishing executive who charged his firm's postage bill to his own credit card.

The biggest collectors of miles today are not frequent flyers but frequent buyers. More than half of all miles are earned on the ground, notably on credit cards linked to airlines' programmes or on telephone calls. Miles are doled out by hotels, car-rental firms, retailers, real-estate agents and mortgage brokers. In America, if you pay by credit card you can earn miles for hospital surgery, income-tax payments and funerals. Some airlines even award miles to pets that fly with their owner.

On most airlines, one mile is earned for every mile flown. But what is a mile worth? Airlines sell them to credit-card firms at a rate of between one and two cents a mile. Yet if you make the best use of your miles, such as flying business class across the Atlantic, the market value can be up to 10 cents per mile. In 2004, over 20m free tickets were issued, and on a typical flight 7-8% of passengers were travelling on such tickets. You can also use miles for hotel rooms, car rental, holidays, restaurants, CDs and magazines, but these account for a small fraction of miles spent.

As with any form of "money", frequent-flyer miles have bred crime, corruption and crafty scams. A Singapore Airlines employee in Australia was recently jailed for fraudulently awarding himself 17.6m miles. In 2002, two German politicians were forced to resign when it was discovered that they had broken the rules by using miles earned on official trips for personal tickets. In America, by contrast, miles earned by federal employees can now be used for personal trips. But sadly one of the best scams to earn lots of miles ended in 2003, when the American Treasury stopped accepting credit cards for online bond purchases.

Frequent-flyer programmes are no longer just a marketing gimmick; they have become a lucrative earner for airlines, through their sale of miles to partners, such as credit-card companies. When United Airlines filed for bankruptcy in 2002, it said that its frequent-flyer programme was the only part of its business that was making money. The economics is certainly attractive. Charging partners for each mile earned on a credit card, say, by a member of a frequent-flyer programme, brings in estimated annual revenue of more than $10 billion for the

industry worldwide. Better still, the airlines get this revenue upfront, while the miles are not redeemed until well into the future—if ever.

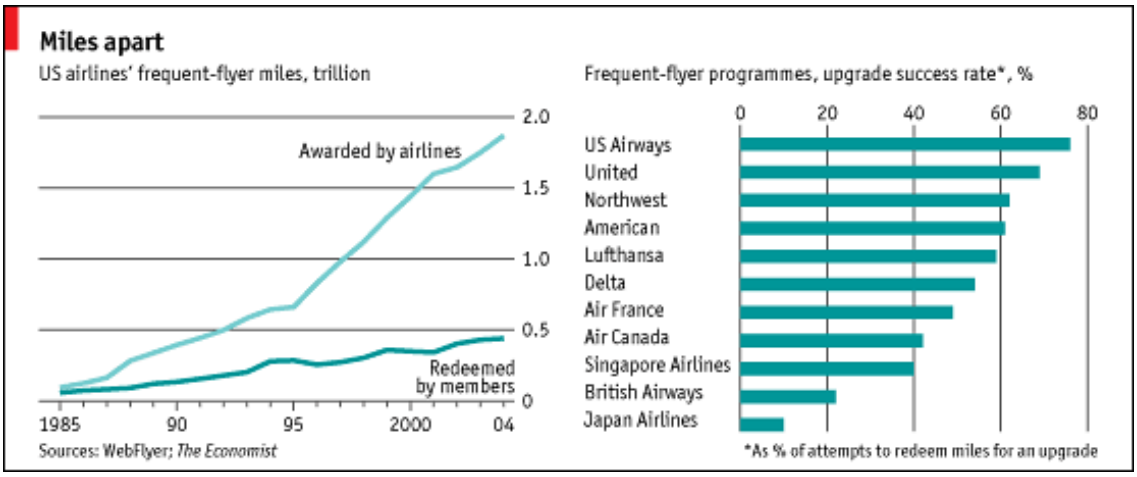
Miles make money

Moreover, although a ticket may be worth several hundred dollars to a passenger, the marginal cost to the airline of giving away empty seats is estimated at around $25 for a roundtrip on an American domestic flight, to cover the cost of fuel, ticketing and food. If the airline had previously sold all 25,000 miles redeemed for that ticket to a credit-card firm, it could have earned up to $400. Even allowing for some revenue loss from passengers who might otherwise have paid, the industry's total costs for giving away free seats are probably not much more than $1 billion—a fraction of the $10 billion revenue. No wonder sceptics argue that frequent-flyer miles now reward airlines more than passengers.

Airlines have to include a contingent liability in their accounts, to cover the future cost of unredeemed miles, but they try to make this as small as possible. American airlines ignore all miles in individual accounts until they reach blocks of 25,000 miles (the minimum required for a domestic ticket). Then, for each 25,000-mile block of unredeemed miles, they enter a liability of only $20-25. They also assume, on average, that one third of miles will never be redeemed. Taking all this into account, in 2004 the 14 biggest American airlines posted a total liability of only $3.9 billion to allow for future frequent-flyer mileage redemptions, according to IdeaWorks, a consulting firm.

Whatever the correct figure, the future financial liability of unredeemed miles cannot cause an airline to go bust, because the fine print of frequent-flyer rule books allows airlines to increase the number of miles required for a free flight, or to restrict seat availability. Both are a form of devaluation. With no independent central bank to protect the "currency", the value of frequent-flyer miles has already diminished: over the past decade most airlines have increased the number of miles needed for a free flight.

Just as passengers are addicted to earning miles, so airlines have become habituated to the profits from selling miles to partner firms. As a result, the stock of miles has soared. The snag is that the stock of seats available for awards is limited: the number of miles redeemed has barely changed over the past five years (see chart). Indeed, in relation to capacity, seat availability has fallen. In 1999, free tickets accounted for around 9% of total revenue passenger miles on both American Airlines and United. In 2004 the figure was only 7.5%.



With too many miles chasing too few seats, there are growing complaints from consumers who cannot book the flight they want, or have been forced to redeem twice as many miles to get a seat. Most American airlines have a two-tier system: a limited number of seats are on offer at the basic rate of 25,000 miles for a domestic ticket; but if you pay up to double this, you can buy any available seat. Once again, this is a form of devaluation.

According to a survey on Webflyer.com, the average success rate in getting a free ticket varies from 71% on US Airways to 54% at British Airways and only 37% on Northwest. Members of US Airways' frequent-flyer programme succeeded in getting upgrades 76% of the time, on British Airways only 23% (see chart). British Airways' scheme is generally stingier than those of its American counterparts. Not only are upgrades much harder to get, but discounted tickets earn only 25% of the miles flown (compared with 100% on most American carriers) and do not count towards earning elite status. On the other hand, a British Airways gold card is a much-coveted prize of the frequent traveller, allowing free access into luxurious first-class lounges around the world. British Airways likes to see its Executive Club as a true loyalty programme rather than just an upmarket trading-stamp scheme.

It is one thing for frequent-flyer miles to be devalued, but what is the risk they might become worthless? Never

before have so many airlines been in such trouble. American airlines have lost around $40 billion over the past five years, and three of country's four biggest carriers (United, Delta and Northwest) are currently operating under Chapter 11 bankruptcy protection. In the past, when a big airline went out of business, parts of it were acquired by rival airlines, which honoured its frequent-flyer miles. When TWA went bust in 2001 its loyalty programme was absorbed by American. But smaller airlines have fared less well. In the cases of Midway, Braniff, Ansett Australia and National, members lost all their miles when the airlines folded. If one of the big American airlines went under today, none of the other giants is currently strong enough to take it over.

What to do? AwardGuard, a company that insured frequent-flyer miles, stopped accepting new customers in 2003, because of the increased risk of claims. But American Express has just launched an insurance policy for miles in the United States.

Both history and recent financial troubles suggest that frequent-flyer miles will not improve with age. If you can't use all your miles on flights now, you could try to sell them. The fine print of every programme prohibits the sale or barter of miles, but there is a black market of brokers, such as Award Traveller, which will buy your miles at a discount (by paying you to redeem them for a ticket for one of their customers). However, if the buyer is caught with your award ticket, it will be confiscated and your frequent-flyer account permanently frozen. Some members who have sold their miles on eBay have also had their miles revoked.

Another option is to transfer miles to a sounder airline. Points.com brokers miles among various programmes, but its rates of exchange involve losses of up to 90% of the value of miles. The Diners Club Rewards programme can also be used to swap some airlines' miles (again with a sizeable loss). For instance, 10,000 United miles can be switched into 5,000 BA miles.

If current losses persist, might some airlines try to raise money by selling off their frequent-flyer programmes? In 2005, Air Canada sold 12.5% of its loyalty scheme, Aeroplan, into a separate income trust. This raised C$250m, putting a total valuation of C$2 billion ($1.6 billion) on the scheme. United's Mileage Plus has eight times as many members as Aeroplan. On the other hand, United's estimated revenue from sales of miles to partner companies is perhaps only three to four times larger. This suggests a valuation of United's mileage scheme of $5 billion-10 billion.

That would come in handy, but in the long run, airlines that flogged off their loyalty programmes would risk killing the goose that lays the golden (or perhaps platinum?) eggs.

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Personal finance in Jane Austen

Percents and sensibility

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Mary Evans

What did early 19th-century literary characters live on?

"TEN thousand a year, and very likely more! 'Tis as good as a lord." Mrs Bennet's reaction to her daughter Elizabeth's engagement to Mr Darcy is telling. "Pride and Prejudice", like all of Jane Austen's books, is about sex and money. But Miss Austen's emphasis on each is different from that of today's chick-litterateurs. Her characters never touch, let alone kiss. And their wealth and income are at least as important in the calculus of courtship as personal tastes and sex appeal.

Miss Austen was neither mercenary nor a snob. She was a daughter of her times. At the turn of the 19th century, wealth merited much discussion. Landed wealth, which dominated the 18th century, was being supplanted by monied wealth, which came to dominate the 19th. Between 1796, when Miss Austen began "Pride and Prejudice", and 1817, when she died while writing "Sanditon", land and money (or "funds" as Miss Austen's peers called their investments) stood in rough and uncomfortable equality. In this shifting balance lay the foundations both of the Anglo-Saxon world's commercial prosperity and much of the drama and humour of Miss Austen's books.

Lady Denham, the doyenne of Sanditon, laid out the social order of the time:

> But heiresses are monstrous scarce! I don't think we have had an heiress here, or even a co-heiress, since Sanditon became a public place. Families come after families, but as far as I can learn, it is not one in an hundred of them that have any real property, landed or funded—an income perhaps, but no property. Clergymen maybe, or lawyers from town, or half-pay officers, or widows with only a jointure. And what good can such people do anybody?

There is bitter humour in Lady Denham's dismissal of her author's own class. As the daughter of a clergyman, who spent her later years living on the generosity of relatives, Miss Austen knew all too well that wealth was the only real source of security.

Where did that wealth come from? The answer lies in the combination of Britain's growing commercial riches and its government's continuing poverty. There was really only one kind of investment from the South Sea Bubble of 1720 to the railway boom of the 1840s: government debt. British government debt was the only security traded on the Stock Exchange at its foundation in 1801, and remained so until 1822. Thanks to luck and skill, the

government managed to finance a century's worth of horrendously expensive wars in a way that not only did not cripple commerce but mobilised commercial resources for new challenges.

The key piece of skill was the mechanism of "funding" that secured interest payments. When William and Mary re-established the Protestant monarchy in 1688, Parliament wanted both to shore up the royal finances and establish its control over them. Funded borrowing did both. Parliament passed taxes sufficient to pay interest on a certain amount of debt—just over £1m in the first instance—then tacked on a bit more tax to pay down the principal gradually. The monarch could borrow against this "funded" amount fairly easily, but found it hard to borrow more, which gave British debt unparalleled stability. In 1715-70 France reneged on the terms of its debt five times; Britain never missed an interest payment.

The big piece of luck was the South Sea Bubble. In order to issue debt more cheaply, the government hit upon the wheeze of tying debt issues to the grant of trading privileges, which cost it nothing but persuaded investors to part with their money at a lower rate of interest. In 1693 the going rate on government debt was 14%. In 1698 the East India Company was prevailed upon to lend £2m at a rate of 8% in return for an extension of trading privileges. This understandably appealed to ministers. In 1711, the government raised a further £10m from the South Sea Company in return for exclusive trading rights to Spanish South America. Finally, in 1719, the South Sea Company proposed to take over the finance of the entire national debt. The government agreed.

Flirtations with lotteries and annuities were generally disappointing

Fortunately for posterity, the directors of the South Sea Company were greedy and incompetent. They promptly began talking up the price of their shares with inflated estimates of the value of their trading and financing rights, which helped to fuel a dotcom-style speculative bubble. After the bust, the government went off the idea of entrusting its finances to a single company. So it set about devising securities that could sell into a broader market.

Early flirtations with lotteries and annuities were generally disappointing. So were "tontines", a sort of group annuity in which many paid into a general pot, and the last few survivors split the income. What did sell, hesitantly at first, were bonds—albeit ones which were often sweetened with "douceurs" like a lottery ticket or two.

The government consoles itself

In 1751 Henry Pelham's Whig government pulled together the lessons learnt on bonds to create the security of the century: the 3% consol. This took its name from the fact that it paid 3% on a £100 par value and consolidated the terms of a variety of previous issues. The consols had no maturity; in theory they would keep paying £3 a year forever.

Between 1751, when the funded national debt was only a tad over £70m, and 1801, when it climbed over £450m, the government issued £315m of consols. Lord North particularly liked them because they carried a low nominal interest rate. He argued that lower rates were better because "it was the interest that the people were burdened with the paying of and not the capital." That said, Lord North issued new consols at £60 or so, to create a 5% interest rate. Why he thought a discounted 3% bond was better value than a 5% bond sold at par is unclear.

William Pitt the Younger, however, discovered the downside of discounted bonds when he tried to reduce the national debt during the lull between the American war and the Napoleonic wars. In theory, the consols could be redeemed by the government at their par value of £100. In practice, doing so would have given a windfall to bondholders: nearly double their capital as well as interest payments. Pitt instead created a sinking fund, using tax revenue to buy back bonds in the market.

The sinking fund continued in operation through the Napoleonic wars, though in an increasingly bizarre fashion. By the end of the wars, the government was borrowing all of the money for the fund from the same markets that the fund bought from, in the deluded belief that reinvesting the interest on the bonds held by the fund would yield compound returns sufficient to pay off the whole of the national debt.

Clearly, the financial markets of Jane Austen's time were not sophisticated. But they were robust. There were no alternatives to easily tradeable, interest-bearing securities, and lots of people wanted them. Merchants put spare cash into the funds, which, as they would not otherwise have earned interest on the money, boosted their profits and competitiveness. Some landowners traded back and forth between funds and land in search of better returns. Others saw the funds as a new way to maintain their wealth without farming.

From a speculator's point of view, this was a lively market. The fact that early bonds had no fixed maturity date ensured that any change in interest rate was fully reflected in the capital value of the bond. Rates, in turn, fluctuated in response to foreign affairs in general and military ones in particular. When the British won a battle, investors anticipated the day that the government would stop issuing new bonds and turn to buying old ones via the sinking fund. Rates fell and values rose. When British forces lost, investors anticipated new issues coming to market, and the opposite happened. Compounding these movements were poor communications: nobody really knew what was going on in the wars.

One officer rushed from Portsmouth to London with forged dispatches proclaiming the fall of Paris and the rout of Napoleon, while at the coffee houses his confederates sold into the rising market and netted about £10,000. Even with full information, early markets did not always do what a modern trader would expect. In theory, the prices of various securities should have converged around a general market interest rate. Not so in fact. William Fairman of Royal Exchange Assurance noted that "the very great disparity between the current prices of different funds evidently shows that exact observers among the monied men are not numerous". There was also a persistent fear that the government might have so over-extended itself with debt that a general failure of markets was inevitable.

The despairing and the hopeful, the greedy and those simply too lazy to farm all converged on coffee houses near the Royal Exchange to do business. Thomas Mortimer described the scene in "Every Man his own Broker, or, a Guide to Exchange Alley":

> it consists of a medley of news, quarrels, prices of different funds, calling of names, adjusting of accounts, etc, etc continually circulating in an intermixed chaos of confusion.

While trading in the coffee houses was open to all, a booming industry of brokers and bankers arose to serve those who did not wish to brave the hubbub in person. Jane Austen's favourite brother, Henry, started his own bank, though after it failed he reverted to the family business and became a clergyman. In 1801, the Stock Exchange was founded as a members-only institution intended to bring some order to the markets—and in particular to ban from membership those who reneged on their deals.

By the end of the Napoleonic wars in 1815, the debts of the British government reached £745m. But instead of calamity and national bankruptcy, the rise in debt simply brought a hunger for more investments. As the government itself stopped issuing new bonds, and started retiring old ones through the sinking fund, investors turned first to foreign-government securities in the 1820s and then to shares in the new, capital-intensive companies, such as railroads, leading the industrialisation of the 19th century. Both markets were highly speculative, to say the least. Foreign-government debt included bonds from one entirely fictitious country, Poyais, and most of the new industrial ventures failed.

By then markets were big enough to absorb the bumps, and their growth has supported a cornucopia of prosperity ever since. Still, one shortage noted by Jane Austen in "Mansfield Park" arguably remains: "there certainly are not so many men of large fortune in the world, as there are pretty women to deserve them."

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Collecting

To have and to hold

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Mass production and modern communications bring out the collector in all of us

SMALL children collect shells or marbles; older ones comic books, dolls or toy cars. Grown-up children collect vintage cars, or paintings, or a huge range of other things, from the sublime to the ridiculous. Even birds do it. In the mountains of Papua New Guinea, the male bowerbird collects flowers, moss, berries and man-made items, and fashions them into a bower to attract a mate.

Collecting, by one definition, is "the process of actively, selectively and passionately acquiring, possessing and disposing of valued things, often removed from ordinary use and perceived as part of a set." Hunting for them excites the collector, and taking possession of the object of his desire can be a moment of pure passion, sometimes literally. Don Juan, with his 1,003 conquests in Spain alone, was an archetypal collector. His hunting ground was half the human race, so he could never hope to complete the set. Most collectors pursue less ambitious goals, merely wanting to acquire every first edition by an author or every denomination of a stamp, and love putting the last piece into place.

Some people think the urge to collect may be related to man's origin as a hunter-gatherer. Others have looked for Freudian explanations: compensation for a loveless childhood, or an attempt to impose order on a chaotic world. (Freud himself possessed over 4,000 antiquities, many of which look distinctly phallic.) A broad rule of thumb is that one in three people will remain collectors even in adulthood.

They are a heterogeneous bunch, says James Stourton at Sotheby's, who is writing a history of art collecting after 1945; but those he meets often share certain characteristics. They are very intelligent, predominantly male, typically Jewish, often childless, sometimes homosexual. They see their collecting as a highly creative activity, and know their subjects backwards. Some stick with the same specialism all their lives; others get bored and turn to something else. But they rarely give up collecting altogether.

Most serious collectors are not motivated by money, but by a fascination with the objects themselves. Sometimes they go over the top, like Sir Thomas Phillipps (1792-1872), an Englishman who declared that he wanted a copy of every book in the world. He acquired around 50,000 books and 60,000 manuscripts, piled them high in his house and ran up huge debts. But of course he never got the complete set.

A modern, and happier, example of a passionate collector is Robert Opie, who as a teenager took an interest in consumer-goods packaging. This came cheap, because it was designed to be thrown away. He now has a collection of over half a million objects which he markets as an image bank and a repository of advertising history and nostalgia items. It has taken over his life, but perhaps this is not surprising. His parents spent theirs collecting children's games and nursery rhymes.

Wonders of the world

Whatever the motives, collecting has been around for a long time. King Nebuchadnezzar II of Babylon kept statues from the period of the kings of Ur which at the time were already hundreds of years old. The Roman empire developed a craze for antique statues, paintings and other objects from Greece, which were plundered and brought to the capital for sale to Roman collectors. For much of the Middle Ages, collecting in Europe was mainly done by the Church, which kept treasuries of artefacts made from gold, silver and gems (not to mention alleged parts of saints). But by the early Renaissance, princes and nobles in Italy became interested in collecting art and curiosities, and the habit rapidly spread northwards. By the start of the 16th century, every self-respecting European ruler had his own *Wunderkammer* stuffed with rarities from the animal, plant and mineral worlds, as well as works of art. In 1556 a Dutchman, Hubert Goltzius, listed 968 such collections all over Europe.

From the late 16th century, the wealth and political stability of the Netherlands brought a passion for collecting among a middle class that had the money and opportunity to indulge it. Rembrandt kept over 2,000 weapons and pieces of armour, as well many paintings and prints, ethnographic specimens from Asia and the Americas and lots of other items. Among the many things that well-to-do 17th-century Dutchmen collected were outlandish fruits and strange flowers, most famously tulips, which probably first arrived in Holland from Persia or Turkey in the middle of the 16th century. The flowers soon became fashionable and the search for rare and beautiful specimens turned into a craze. In 1623 a tulip collector, Nicolaas van Wassenaar, bought a single bulb of an exquisite red-and-white striped variety for a sum that at the time would have bought eight oxen. The collector's instinct had become mixed up with speculation, greed and fear.

Like all bubbles, the mania subsided, leaving many a speculator ruined. But interest in the rare and exotic survived, soon to be fed by another craze: the grand tour. Well-to-do Europeans started travelling south, mostly to Italy, to visit the sites of classical civilisation and buy up antiquities and paintings to take home. Some of these acquisitions formed the core of great museums, such as London's British Museum and Oxford's Ashmolean. A grand tour of another kind, Napoleon's military progress around Europe, yielded the first collection for the Louvre in Paris.

Getty Images

Somebody loves me

By the 19th century, the collecting habit had started to pass from rulers and nobles to merchant princes such as Andrew Carnegie, Andrew Mellon, Pierpont Morgan and John D. Rockefeller. In his book "Collecting—An Unruly Passion", Werner Muensterberger, a psychoanalyst, recalls how Nelson Rockefeller once told him: "You see, in my position I must collect. My mother did it, and my grandfather did it. It is an obligation. After all, the Medicis did it too." In Europe, magnates such as Heinrich Thyssen-Bornemisza, Sir William Burrell and the Rothschild family developed a similar sense of duty, and many such collections ended up in their own museums for all to enjoy.

When rich men want something, they usually get it. A London art consultant who has met lots of them, Peyton Skipwith, tells a story about Stavros Niarchos, a Greek shipowner, who saw an exhibition of orientalist art and resolved to buy the lot. When he was informed that some of the pictures had already sold, he said: "I always regard red spots as meaning 'negotiate'."

Even very rich men, however, cannot lay their hands on treasures that have already come to rest in museums or the private collections of other plutocrats. Great paintings still turn up in the salerooms from time to time and fetch great prices: last year Picasso's "Boy with a Pipe" was sold at Sotheby's for $104m. But such opportunities are few and far between.

AP

One way round this supply problem is to buy something new. Alistair McAlpine, a British collector, remembers how in 1964 he paid £2,000 for a painting by Mark Rothko which his friends thought was dreadful. This year another work by the same artist dating from 1964 was sold at Christie's for over $10m. Lord McAlpine, who has formed some 100 different collections in his time, subsequently moved on to rare chickens and now collects cyclads, a variety of tropical plant. They have yet to appreciate in value the way the Rothko did, but he says he collects for love, not money.

Another way to avoid disappointment is to collect something nobody else wants. A few decades ago Victorian art was unfashionable, but once enough people had discovered its charms, prices went up. Likewise, ethnographic art held no appeal for collectors in the 1920s when James Hooper started buying it, so although he had little money to spend, he was able to build up a splendid collection. When the rest of the world caught up, starting in the late 1950s, it became very valuable.

But the best way for a collector to ensure he can find what he wants is to develop an interest in something machine-made. Mass production has democratised collecting and brought it within reach of ordinary people. Once something could be made in a workshop or factory—a print, a piece of china, a candlestick—the supply became much more elastic. Not too elastic, though, because even a mass-produced item can become rarer and more valuable if it has a flaw or a slightly different colour from the rest. And there is always the device of a limited edition. During a craze for Beanie Babies toys a few years ago, some versions were made only in small quantities, which persuaded people to queue up and pay high prices for these "rarities".

The biggest change in the world of collecting in the past decade or so has been the arrival of the internet, though television has also boosted the habit. There is no end of websites that cater to collectors, offering information, specialist books and magazines, valuations, search engines for wanted items, auctions, framing, shipping and insurance services, and much else besides.

To get an idea of the range of things that engage collectors, go to collectingchannel.com, which offers information on about 50 categories, from clocks, postcards and militaria to fire engines and dental equipment. One of the more bizarre specialist sites is devoted to moist towelettes. It features a gallery of the best-designed examples and tells you where you can get your own made. It sounds like a spoof, but the site's editor, Michael Lewis, says he has 2,000 of the things and his interest is absolutely genuine.

Even at the conventional end of the trade, the internet has made an enormous difference. Abbotts, an auction house in the east of England which holds fine-art sales every few months, used to publicise them by advertising in the papers, sending out catalogues and telephoning dealers. Now it puts its catalogues on the web, complete with photographs, and finds it gets inquiries from much farther afield.

Auction results too are posted on the web, so it is easy to find the prices achieved around the world. This is useful for collectors, but not necessarily for dealers buying on behalf of clients, who find their trade secrets exposed. Andrew Patrick, who used to run the Fine Art Society in London's Bond Street, says many dealers prefer to buy privately to preserve their mystique.

The same sort of transparency is available on eBay, the online auction house that in a mere ten years has won over 150m registered users and expects a turnover of $40 billion this year. EBay sells mundane things, from clothes to cars, but also has a large section of "collectables" that offers a wealth of more esoteric fare. Would-be buyers browsing the site can see a description of the item, a photograph and the highest bid offered so far, and if they trump it they may soon get their purchase through the post. It may lack the theatrical excitement of raising your hand at Christie's, but it is wonderfully efficient, as hordes of hoarders have found.

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Uncle stories

Whatever happened to Uncle?

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The story of a neglected classic

THE British are not noted for their warmth towards children. Britain is the country that invented the boarding school for seven-year-olds and the maxim that "children should be seen and not heard". How odd then, that it should also have been the source of so many of the classics of children's literature. From "Winnie the Pooh" to "Alice in Wonderland" and from J.R.Tolkien to J.K.Rowling, British authors and storytellers have stuffed the children's sections of the western world's bookstores and provided Hollywood with a stream of material.

Yet not all the gems of Britain's children's literature have enjoyed endless reprints and the Hollywood treatment. The "Uncle" stories of J.P. Martin, which focus on the doings of the eponymous hero, an elephant and benevolent dictator, were first published in the 1960s, and still enjoy a cult following. But they are now out of print. Indeed much of the "Uncle" canon is virtually unobtainable. Second-hand copies are snapped up by fanatical devotees and first editions go for hundreds of pounds.

The slide of Uncle books into obscurity would have surprised some of the original reviewers. The *Times Literary Supplement* called the books "spellbinding", the *Observer* predicted that they could become "a classic in the great English nonsense tradition", while the *Times Educational Supplement* likened the books to Alice in Wonderland, a comparison that has been made many times since.

The Uncle books certainly share some of the surrealism of Lewis Carroll. The hero is a millionaire who exercises one-elephant rule over a gigantic, moated castle called Homeward. His domain is so enormous that large parts of the castle—which is linked together by a fantastic array of lifts, railways and secret passages—are unknown even to its owner. Much of the books is taken up with accounts of expeditions to different parts of Homeward, which is populated by hundreds of animals, dwarves, ghosts and other eccentrics. Uncle, who strides around in a purple dressing gown, also has his own devoted (indeed sycophantic) entourage.

But across the moat from Homeward—and sadly within plain sight of Uncle—lies Badfort, an unpleasant shanty town of run-down huts, inhabited by Uncle's enemies, "the Badfort crowd". While all is elegance and magnificence over at Homeward, the Badfort crowd, led by Beaver Hateman and his relatives Nailrod, Filljug and Sigismund, live a sordid existence. They wander around barefoot and unshaven, dressed in suits of sacking, and living off "skob fish" extracted from a dank stretch of nearby water called Gaby's Marsh, while quaffing an oily drink called Black Tom. The Hatemans also have followers—a ghost called Hootman, Jellytussle (a quivering mass of greyish-blue jelly) and Hitmouse, a tiny skewer-carrying journalist who is forever scribbling disagreeable thoughts into his "hating book". Together the Badfort crowd plot endlessly against the inhabitants of Homeward, hurl insults at Uncle and stage drunken feasts.

Given the debauchery and peculiarity of much of the Uncle stories, it is faintly surprising to discover that their author, J. P. Martin, was a Methodist minister. His stories were not originally intended to be written down. Like many children's classics, including the stories of Beatrix Potter, they were made up to entertain children known to the author. Martin's grandchildren later recalled that when he told them his stories, he sometimes laughed so much at his own jokes that he was unable to go on. Martin himself claimed that many of the episodes came to him in his dreams. It was only when his children were grown up that Martin was persuaded to write down some of his stories. Stella, his daughter, tried to find a publisher for over 20 years—and the first book was published only in 1964, when Martin was already 84 years old.

Uncle's disappearance continues to mystify his devotees. The books contain many of the elements of the best English children's literature. There is the blurring of the line between the human and the animal kingdom, made familiar by Beatrix Potter and A.A. Milne. There is the quirky humour of "Toad of Toad Hall" or "Alice". And the books are illustrated by the wonderful drawings of Quentin Blake, whose illustrations helped make the stories of Roald Dahl come alive. Indeed the difficulty of obtaining first editions of "Uncle" may owe as much to the popularity of Mr Blake's drawings as to the writing. The Uncle books were one of Mr Blake's first commissions; although at first he found the character of Uncle overbearing and pompous, he swiftly came to appreciate the books, and the huge scope they offered for imaginative illustration.

Like all followers of a cult, "Uncle" fans find it hard to understand why the world does not share their devotion. Deprived of reprints of their favourite works, "Uncle" devotees have to make do with discussion groups on the internet, where they discuss the best bits and swap conspiracy theories about why publishers unaccountably ignore their favourite title.

By the early 1970s—even as the sixth and last book in the series ("Uncle and the Battle of Badgertown") was being published—it was already clear that the books had failed to gather a mass audience. Richard Ingrams, a well-known English satirist and devotee of Uncle, speculated then that "Uncle's neglect may be partly due to the fact that in the supposedly egalitarian age in which we live he is an unfashionable figure—a millionaire elephant in a purple dressing gown, exercising one-man rule over Homeward." There is some evidence that Uncle did indeed fall victim to what would now be called "political correctness". Valerie Kettley, who worked as the editor of the last two books at Jonathan Cape, recalls that although the hardback editions came out to "considerable acclaim", plans for a Puffin paperback fell foul of an influential children's publisher who regarded the books as "fascistic" This assertion seems particularly silly, since "Uncle" is clearly meant to be in many ways a figure of fun. It would certainly have surprised the reviewer in The *Listener* magazine, who came to the equally bizarre conclusion that the books were "a denunciation of capitalism".

But there may also be more prosaic reasons for the neglect of the Uncle books: they simply do not sell well enough. The latest publisher to discover this sad truth was Red Fox, a children's imprint of Random House. Charlie Sheppard, an editor at Random House, was intrigued by the stream of letters she was getting from Uncle devotees, demanding that Jonathan Cape (the original publishers, and now part of the Random House empire) reprint the books. Her curiosity piqued, she dug them out of the archives and reprinted "Uncle" in 2000 and again in 2002. But sales were poor. With so many books, television series and computer games competing for the attention of children, there is an element of luck needed for a book to take off. Yet even the real Uncle diehards might reluctantly acknowledge that perhaps there is something in the books themselves that limits their appeal. A comparison with Babar, the great French classic by Jean and Laurent de Brunhoff, is enlightening.

Both Babar and Uncle are wise leaders, adored and revered by their followers. But while the dividing lines between goodies and baddies is clear in Babar—Babar is meant to be unambiguously respected and adored—things are a bit more subtle in "Uncle". In fact, the Uncle stories could almost be read as a parody of Babar. On the one hand, the elephant leader is undeniably a goodie and his rivals from the "Badfort crowd" are undeniably bad—gaining their living from a variety of petty swindles. On the other hand, Uncle is humourless and pompous, and many of the barbs slung at him by the Badfort crowd have an uncomfortable element of truth. In one scene in the second book, "Uncle" is attempting to hold a dignified garden party in the grounds of his castle (clearly modelled on a British royal garden party), while across the moat, the Badfort crowd stage a cruel parody of Uncle's event:

> They had large hams, loaves of bread and buckets of tea, and soon began to eat these things in a hideous imitation of the polite party so near to them.
>
> Beaver Hateman took a well-cooked ham between his fingers and thumb, and said in a high-pitched voice as he passed it to Nailrod:
>
> "Have another sandwich, Count!"
>
> "No, thank you, but won't you take one of these little cakes?" replied Nailrod, balancing a whole loaf on a very small egg-cup. "They're so light!"
>
> Hitmouse brought Filljug a plum-cake on an imitation lace mat torn out of a newspaper.
>
> "I'm such a small eater", said Filljug in a high squeaky voice. "It always takes about twenty bites for me to eat a macaroon."
>
> Uncle was getting very hot. There was no doubt that the Hateman gang were deliberately insulting him.

> Then Beaver Hateman took a whole bucket of tea, and in some mysterious way held it in the crook of his little finger.
>
> "I'm so glad I've got this little attachment on the end of my trunk. It's so handy for holding egg-shell china!" he said in a loud offensive voice.
>
> Still Uncle controlled himself, and went on eating, though with a faint heart, the cress sandwiches that were set before him.

Much of the humour in "Uncle" is so quirky and understated that it is more likely to appeal to an adult than a child. For example, in most successful children's literature, a haunted tower would be genuinely spooky. In Uncle's castle, however, it is a great disappointment. One room is said to be inhabited by a ghost known as the White Terror. But the phantom turns out to be only a foot high, and stands on a bedside table, muttering monotonously, "I did it! I took the strawberry jam!" Quentin Blake, the book's illustrator, muses that "The books have always had terrific fans, but they have never attracted a mass following because they are so eccentric." Charlie Sheppard at Random House agrees that "there just may not be enough truly eccentric children out there." Even the most ardent Uncle fans would probably also concede that the stories suffer from a certain lack of narrative structure.

Are the “Uncle” books, therefore, doomed to disappear—surviving only in antiquarian bookshops and on internet discussion groups? Not necessarily. Developments in modern publishing mean that many publishers can in theory now keep huge back-lists of books, and print out single editions on demand—a service that is already offered by some big publishers, such as Time Warner Books. Ms Sheppard at Random House says that a “bespoke book” of this sort need only cost a few pounds more than one published as part of a normal print run. She points out that the “Uncle” books—with a tiny but fanatical following—would be perfect candidates for such “printing-on-demand”. J.P.Martin, who invented such wonders as the “fish-frying academy” and the “dwarfs' drinking fountains”, would probably have appreciated the idea of the single-book publisher.

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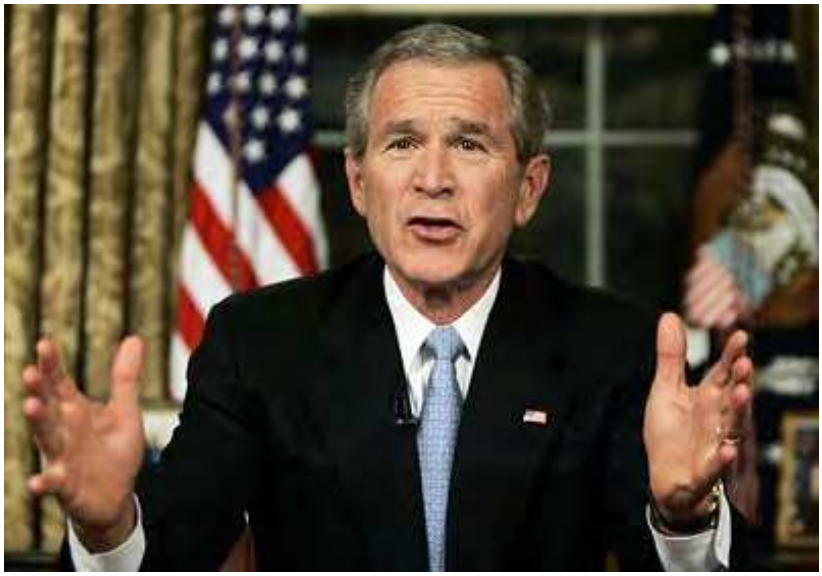
Homeland security

Look who's listening

Dec 20th 2005 | WASHINGTON, DC
From The Economist print edition

Advances in Iraq, setbacks at home for George Bush

AP



"DEFEATISM may have its partisan uses, but it is not justified by the facts." That was George Bush's pre-Christmas message, televised on December 18th. "Not only can we win the war in Iraq, we are winning the war in Iraq." It was a deft performance, in which the president offered what the *Washington Post* called "an olive twig" to his critics —"I also want to speak to those of you who did not support my decision to send troops to Iraq"—even as he smilingly heaped scorn on them.

Mr Bush conceded mistakes and admitted that the occupation has proved "difficult", but remained confident that his three-pronged strategy was working. First, American forces are training Iraqis to defend the new order. Second, a democracy is being built: witness the 10m Iraqis who went to the polls on December 15th. Third, the Iraqi economy is improving.

Progress in Iraq may be less sure than Mr Bush implied (see article). But, after five speeches in 19 days, he is rousing his base. His approval ratings have crept back up from the mid-30s to the mid-40s—though Charlie Cook, a political analyst, thinks this is because his supporters have stopped smarting over his abortive bid to put his former personal lawyer on the Supreme Court. Meanwhile, the Democrats are struggling to present a united front.

A faction conservatives have dubbed the "Defeaticrats", including the party's chairman Howard Dean and many activists, thinks victory in Iraq is impossible. They want to pull out, either straight away or over the next two years. Members of another group, typified by Hillary Clinton, are trying artfully to avoid committing themselves to anything that might turn out to be unpopular. Senator Clinton has rejected both a "rigid timetable" for withdrawal and an "open" one. A final faction, consisting of Senator Joe Lieberman, offers Mr Bush qualified support.

Despite the Democrats' incoherence, Mr Bush appears to have lost two battles on the home front this month. First, barring a sudden breakthrough in the Senate, he has failed to get the Patriot Act, key provisions of which expire at the end of the year, renewed. Second, he has been forced to drop his threat to veto an anti-torture amendment sponsored by John McCain, a Republican senator from Arizona.

Mr Bush argues that the Patriot Act, which was passed nearly unanimously after the attacks of September 11th

2001, is a vital tool in the war on terror. Senator Russ Feingold, a Democrat from Wisconsin, says it allows the government too much scope to spy on American citizens by, for example, allowing roving wiretaps and scrutiny of library records.

Worryingly for Mr Bush, some of his own side agree. When Mr Feingold led a filibuster against the act on December 16th, he was backed by four Republican senators, as well as virtually the entire Democratic contingent. Fretting that "we cannot afford to be without this law for a single moment," Mr Bush challenged the Patriot Act's opponents to explain why nearly all of them voted for it in 2001.

One reason for their distrust of the executive may be the revelation in the *New York Times* last week that the National Security Agency has been carrying out "hundreds, perhaps thousands" of wiretaps within the United States without court orders. The American Civil Liberties Union calls this "shocking" and "unconstitutional"—the NSA has broad authority to spy overseas, but not in America.

Mr Bush retorts that it was both legal and necessary. The wiretaps were used only against those with known links to terrorist groups and only international calls were bugged, not calls "from Houston to LA". His authority to order such surveillance derived from the constitution and the act of Congress authorising the use of military force against al-Qaeda. (His critics dispute this.)

Mr Bush claims that in some cases his spies needed to act quickly rather than waiting for a warrant. A two-minute phone call between an al-Qaeda operative in America and one of his contacts overseas could lead to thousands of American deaths. Given that wiretap warrants can be granted retroactively, his critics wonder whether this argument adds up. Mr Bush has refused to give many details of how exactly the wiretaps were carried out, citing the need to protect operational secrecy.

Conservatives have tried to shift the eavesdropping debate on to the conduct of the *New York Times*, which sat on the story for a year. But the revelation fits all too easily with the idea of an administration that has paid scant attention to civil liberties.

With regard to a more controversial means of gathering information, Mr Bush has provided more clarity, albeit reluctantly. On December 15th, he agreed not to veto Senator McCain's amendment outlawing the "cruel, inhuman and degrading" treatment of enemy captives anywhere in the world. This was after Dick Cheney had held out for an exception to be made for the CIA.

Although the administration insists that it does not "torture" anyone, it has defined "torture" so narrowly as to exclude, for example, "water-boarding", where a captive is made to believe he is drowning. A debate on the ethics of such techniques has raged in recent weeks. Advocates, such as the conservative columnist Charles Krauthammer, say that since a few terrorists undoubtedly have information that could save many lives, it would be immoral not to force them to disclose it.

That sounded plausible to those who have seen Kiefer Sutherland brutally extract crucial clues from bad guys to ward off Armageddon on the television series "24", but Mr McCain, who was tortured by the Vietcong, has pointed out that in the real world, information extracted under torture is unreliable. And other columnists have argued that even if torture does sometimes yield useful intelligence, that must be set against the probably larger volume of intelligence forgone because Iraqis and Afghans are outraged at what Americans do to their captives.

"We've sent a message to the world that the United States is not like the terrorists," said Mr McCain. His amendment, attached to a defence bill, is expected to pass this month.

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Security v liberty (well, sort of)

Hands off

Dec 20th 2005 | SCOTTSDALE
From The Economist print edition

An epic struggle about individual rights in the poshest bit of Arizona

HAPPY HOUR at Babes Cabaret in Scottsdale, Arizona, seems peaceful enough. Dancers sway sinuously, while customers reverently sip their beer. But mention the Sexually Oriented Business Ordinance and Scottsdale City Council, and the atmosphere changes. "Council bullshit!" cries a waitress. Businessmen get hotter around the collar, and the dancers look fretfully away.

With reason. On December 12th, the council declared that from March 13th clubs must install four-foot wide barriers between dancers and customers, with no touching allowed. "What's the point of us stripping at all?" one dancer sighs.

Officials in Scottsdale, a higher-class neighbour of Phoenix, have fretted for some time that the sex business encourages crime and is not good for growth. Matters became more pressing in August when Jenna Jameson, a celebrity writer and porn actress, bought Babes Cabaret, one of Scottsdale's two leading strip clubs. She plans to rename it "Club Jenna", and build it into a nationwide chain. Employees sport "Jenna is Coming" T-shirts, and the club is well stocked with her indispensable memoir, "How to Make Love Like a Porn Star".

Soon after Ms Jameson's purchase, however, undercover policemen raided both Babes and nearby Skin Cabaret. To their horror, they discovered dancers getting close to customers and allowing them to touch. The clubs were charged with 81 sex-ordinance violations, and as a result the council tightened the law.

The council denies wanting to close the clubs. It merely wants to make them compatible with the rest of Scottsdale and its classy galleries and restaurants. Besides, the regulations are not new, just expressed more clearly, to make them defensible in court. Moreover, Seattle and Nashville have done the same.

Maybe so; but many Scottsdale locals seem outraged. At a nearby petrol station, one retired car-part salesman defends the dancers' rights to do their job "undisturbed". And Ms Jameson, who attended the council meeting, vows to battle on. Her website jennafightsforfreedom.com, now under construction, will become a forum for people to voice their views on strip clubs and the first amendment right to freedom of expression. And if she collects enough signatures from Scottsdale voters by January 11th she can force the issue on to a ballot.

Dancers on the afternoon shift at Babes hope fervently for her success. Several of them rely on dancing to put themselves through college or support their children. If lap-dancing is banned there, they may have to work at trashier clubs in Phoenix. One young dancer finishes her shift with a smiling flourish of dark hair. "We're just providing a service," she argues. "Why change something so beautiful?"

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Massachusetts or the presidency?

An easy choice for Mr Romney

Dec 20th 2005 | BOSTON
From The Economist print edition

The state every governor wants to leave

WHAT is it about Massachusetts that draws it to Republican charmers with wandering eyes? Elected governor in 1990, Bill Weld flirted with running for president, did run for the Senate in 1996 and eventually quit in 1997 to pursue an ambassadorship to Mexico. His successor, Paul Cellucci, after some energetic hobnobbing with the Bushes, finally landed the ambassadorship to Canada in 2001.

So when they elected Mitt Romney as governor in 2002, few people in the state harboured the illusion that the relationship would last. Presidential ambitions have clung to the smooth-talking CEO like hairspray ever since he rescued the Salt Lake Olympics. Yet now that Mr Romney has dumped them—by announcing he will not seek a second term—many New Englanders feel used.

In his courtship of Republican voters outside Massachusetts, Mr Romney has made rather too many jibes about the liberal nature of his current electorate, comparing his job to being a "cattle rancher at a vegetarian convention". The home of Michael Dukakis and John Kerry is always good for an easy laugh in the red states, but Mr Romney's constituents have also been irked by his ostentatious shift rightward on social issues, notably gay marriage.

That's why his latest move is strategically sound, says Lou DiNatale, a political scientist at the University of Massachusetts at Lowell. Mr Romney won the governorship handily three years ago. Sneaking home next year with a reduced majority would not have helped his national ambitions, and losing would have been disastrous. Stepping aside is the safer bet.

Yet Mr Romney's presidential prospects are uncertain, at best. Conservatives are still slightly wary of him, and many moderates are more drawn to John McCain and Rudy Giuliani. There is also his Mormonism, though that never really became an issue in Massachusetts.

His legacy in the state is somewhat thin. Some cost-cutting measures aside, he couldn't get his pet initiatives, such as the death penalty, through the legislature. (His modest description of his tenure as a "whirlwind of accomplishment" was an Olympian piece of overstatement.) The Republicans lost ground in the state in last year's legislative elections. His heir apparent, Kerry Healey, the lieutenant-governor, has an uncomfortable knack for seeming elitist and may face bruising primary competition from Christy Mihos, a convenience-store magnate, though the latter may run as an independent.

The Massachusetts Democrats have a long record of squandering gubernatorial elections. Those who place the blame on a string of uninspiring candidates are already grousing about the front-runner, Tom Reilly. The attorney-general is a skilled prosecutor with a milquetoast public profile who has run a somewhat boring campaign. Deval Patrick, who worked for the Clinton administration, has more personal spark but has raised less money; he may also be tacking further to the left than state voters are willing to go.

So far, none of these prospects has set voters' hearts on fire. On the other hand, that might not be such a bad thing.

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Student loans

Out of the mouths of babes

Dec 20th 2005 | NEW YORK
From The Economist print edition

Prepare to deal with some fairly surly young people

AP

The party's over

A SURF through the "Student Debt Yearbook" on the Student Debt Alert website reveals plenty of hard-luck stories. Lauren at Arizona State University expects to graduate in 2007, $60,000 in debt. Asked what she is most looking forward to then, she replies: "Law school and more debt." Sarah graduated from Columbia University this year owing $90,000, while Jason will leave Los Angeles City College in 2008 some $10,000 in the red.

The whingeing student is a feature of political life the world over: in America, despite rising tuition fees, they have been relatively quiet. That may change now that Congress has agreed to slash their subsidised loans. A deal reached on December 18th means that, if the current budget package gets through Congress, student-loan programmes will suffer a net cut of $12.7 billion over the next five years—the biggest cut in university funding since the Higher Education Act was initiated in 1965.

The package is a complicated mixture of savings, spending increases and accounting gimmicks. The Republicans point out that the bill generously provides $3.75 billion in new grants for disadvantaged students studying mathematics, science and foreign languages; that they have spent $1.5 billion raising loan limits for students; and that they have tried to cut subsidies for lenders, not for students. But $15 billion of the gross savings of $21 billion in the bill come from higher fixed interest rates and fees for borrowers.

The Democrats are predictably grousing that the Republicans are driving poor people away from college just to dole out tax cuts to the rich. Student PIRGs, the group behind the debt website, claims that more than 60% of undergraduates finish with some federal debt; and nearly 40% of these borrowers contend with "unmanageable" debt levels, meaning their payments are more than 8% of their monthly incomes. And those who do a stint in graduate school end up even more in debt.

Much of this is grandstanding. For the vast majority of Americans, a college education is a good investment: their post-university incomes are considerably higher (even allowing for their debts). But there are some legitimate worries.

Tuition fees have been rising fast: they are now four times higher in real terms than they were in 1975, according to the latest annual report from the College Board, a group of higher-education institutions. If you add in various necessities, such as books and room and board, private-college students (around 16% of the total) fork out $29,026 a year, while their peers on four-year courses at public colleges pay $12,127. Many states have cut the money they give public universities, pushing more of the costs on to the students. And with ever more Americans wanting to go to university, colleges have been able to hike prices.

Rising demand is certainly a sign of health, but high fees present a challenge for poor Americans. Costs put off 48% of qualified high-school graduates from attending a four-year institution, and 22% from attending any college at all, according to a study by the Advisory Committee on Student Financial Assistance in 2002.

The level of Pell grants, the main programme for low-income students, has been frozen at a maximum of $4,050 for the past four years; and its eligibility guidelines were changed last year—with the effect of excluding 81,000 young people and reducing grant money for another 1.9m. The new $3.75 billion for maths, science and language

students will help, but critics say the conditions are too strict.

Another group with a legitimate gripe are students who go on to low-paid professional work in the public sector. Careers in social work, education and the worthier sorts of law all normally involve several levels of tertiary education, but the typical salary for graduates entering such public interest professions was just $36,000 in 2002. A recent survey of over 300 juvenile-dependency attorneys in 43 states by the Children's Law Centre of Los Angeles, found that more than half of the lawyers owe at least $50,000 in student loans, and nearly a third owe $75,000.

The Republicans have indeed clamped down on subsidies for private lenders, which provide around 75% of student loans. Banks have done extremely well, thanks to a fixed formula for profits and a guarantee that the government will cover 98% of a student's debts. One particularly egregious subsidy, dating back to the 1980s, allows banks a return of 9.5%—well above current interest rates. This loophole will now be closed, saving the government $1.8 billion over the next five years.

Lest you feel too sorry for the banks, many other subsidies remain. Indeed, some of the cuts in earlier versions of the bill did not make it into the final language. Cynics note that last year the *Chronicle of Higher Education* traced nearly $1m in campaign contributions from the student-loan industry to members of the House education committee.

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Lexington

A grain of sand for your thoughts

Dec 20th 2005
From The Economist print edition

Ohio contains plenty of bad news for Republicans—but perhaps more worrying portents for Democrats

WILLIAM BLAKE talked of being able to see "a world in a grain of sand". Students of American politics don't have as convenient a microcosm to help them understand a country of nearly 300m people. But they do have Ohio.

Ohio has always had two things going for it, psephology-wise. It is a classic bellwether state—"wrong" in only two presidential elections in the past 104 years. And this slice of the mid-west contains a bit of everything American—part north-eastern and part southern, part urban and part rural, part hardscrabble poverty and part booming suburb. But for political wonks, it now has an irresistible addition: a state Republican Party that mirrors first the success then the problems of the national one.

Republicans have done a remarkable job in Ohio of taking an evenly divided electorate—the state voted for George Bush by a mere 2% in 2004—and parlaying it into Republican hegemony. They run every branch of government from the governorship (which they have held since 1991) through both houses of the legislature to the state Supreme Court. They control both Senate seats. The Democrats can't boast a single statewide office-holder.

Yet as in Washington, the Republican machine is sputtering. The governor, Bob Taft, boasts one of the grandest names in politics. His great-grandfather, William, was the 27th president; his grandfather, Robert, was such a powerhouse that people used to joke that there were three branches of government—the executive, the legislature and Senator Taft. But his grandson's approval-rating is currently 15%—one of the lowest ever recorded.

Long a byword for lacklustre leadership, Mr Taft is now embroiled in a succession of corruption scandals. He pleaded no contest to failing to declare golfing trips with lobbyists and campaign contributors. But "Golfgate" was nothing compared with "Coingate". The Republican leadership decided to invest some of the state's $15 billion workers'-compensation fund in rare coins. Alas, the plan's mastermind was not only tainted by self-interest (he is a rare-coin dealer who has made big donations to the party), but also contrived to lose some of the coins.

The combination of dismal leadership and dumb-as-it-comes sleaze has strained party unity. Activists are furious with the state party's betrayal of conservative principles—spending like drunken sailors during the good times in

the 1990s and then jacking up the sales tax in 2003 to pay for their extravagance. Conservatives are cross that one of their senators, "weeping" George Voinovich, tried to scupper John Bolton's nomination to be ambassador to the UN, and that the other, Mike DeWine, joined the gang of 14 that stopped the Republicans using the "nuclear option" against Democratic filibustering. Internecine squabbling almost lost the party a safe seat in the Cincinnati suburbs earlier this year. The Republicans are now involved in a bitter primary race for the governor's job: Ken Blackwell is leading the true believers, Jim Petro is championing business conservatives and Betty Montgomery is rallying the moderates.

This is hardly the end of the party's problems. Ohio continues to bleed manufacturing jobs (only last week Ford shut a factory). Earlier in 2005, 17 local soldiers were killed on a single day in Iraq. And the Democrats have finally come up with a first-rate candidate for governor. Ted Strickland, a Methodist minister with a top rating from the National Rifle Association, has already won two culturally conservative congressional districts.

Yet if Ohio is a bellwether, it is hardly a comforting one for Democrats. Sure, Mr Strickland may be able to pull-off an upset, but none of the locals expects a return to the glory days of the 1980s when the state's government was firmly Democratic.

Talk to young Republicans and they still exude self-confidence. They regard their party as a well-oiled machine: brilliant at developing "farm teams" of volunteers, a master of the art of getting out the vote in suburbia and exurbia ("We deliver"). They put their success down to a single all-important fact: they know what they believe in. Talk to young Democrats and it is all doom and gloom. The party is an old-boys' club that is better at covering its backside than thinking ahead. Young activists are joining single-issue pressure groups such as Campaign for a New Ohio rather than the Democratic dinosaur. They worry that the Democrats are too fissile—divided between blue-collar workers and middle-class professionals and fractured along all sorts of line of racial and sexual politics—to produce a clear message.

Why Karl Rove may still be right

The Republicans have shown themselves better than the Democrats at erecting a big tent. A party that was once dominated by white men (like Mr Taft) has embraced "white ethnics" (Mr Voinovich), blacks (Mr Blackwell) and moderate women (Ms Montgomery). The Democrats, by contrast, seem prisoners of an industrial economy that is visibly dying. Things do not seem to have changed since John Kerry won Ohio's cities by 57% to 43% but still lost the state. The Democrats are still not reaching out to the suburbs.

The Republicans know how to use culture to trump economics. Mr Bush triumphed in poverty-ridden Appalachia by sounding the clarion calls of "God, gays and guns". A proposition banning gay marriage won with 62% of the vote. And the religious right is continuing to gain strength: groups such as the Ohio Restoration Project boast of registering 300,000 people.

Ohio has a particular place in Karl Rove's affections, not just because it tipped the 2004 election but also because it was home to his hero, Mark Hanna, another political mechanic who guided a Republican to the White House. William McKinley's presidency (1897-1901) laid the foundations for a period of Republican dominance. Today Mr Rove's dream of repeating Hannah's success may well be battered. But to judge from the mood in the Buckeye State, it is far from buried.

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Argentina, Brazil and the IMF

Kirchner and Lula: different ways to give the Fund the kiss off

Dec 20th 2005 | BUENOS AIRES AND SÃO PAULO
From The Economist print edition

Doing without the IMF has underlined Brazil's financial strength and Argentina's economic uncertainty

WHATEVER the economics involved, wriggling free from the tutelage of the IMF is always good politics, in Latin America in particular. That is why Brazil's finance ministry announced on December 13th that it would repay early its entire debt of $15.5 billion falling due to the IMF over the next two years. The immediate effect was to rush Néstor Kirchner, Argentina's president, into an identical declaration just two days later. He said his government would repay $9.8 billion to the Fund, before the end of this month. In both cases, the motivations were similar. More telling was the difference in market reaction and policy implications.

Both governments claimed they would make financial gains from the move—a saving of over $900m in interest payments for Brazil and of $842m for Argentina. In both cases, the more powerful motive was political. Brazil's president, Luiz Inácio Lula da Silva, is burdened with a corruption scandal and a below-par economy as he prepares for a tough fight to win a second term in an election next October. Paying off the IMF will please his left-wing supporters without ruffling financial markets. Mr Kirchner runs the risk that by the time he seeks a second term at an election in April 2007, Argentina's economic recovery may have run out of steam. Paying off the Fund will "generate freedom for national decisions", he said. Even *La Nación*, a habitually Kirchner-sceptic newspaper, hailed this as an "historic" move.

There the similarities end. Brazil's agreement with the IMF has helped steer it through financial turmoil and an inflationary spike. Its repayment exploits the robust balance of its international payments: reserves stand at some $67 billion. "Foreign investors will understand that Brazil has strong policies," said Joaquim Levy, a senior finance official. They did: the risk premium on Brazil's dollar bonds fell to its lowest level ever last week.

Ironically, this gesture of self-confidence comes at a time of fierce debate over the policies that made it possible. The finance minister, Antonio Palocci, is defending high interest rates and a tight budget policy against increasingly shrill attacks from business, the ruling party and his fellow ministers. The odds are that government spending will rise in 2006. But the debate is over whether or not the government should continue to exceed its fiscal targets. In Brazil there is "a growing convergence around a responsible fiscal policy", according to Lisa Schineller of Standard & Poor's, a rating agency.

Argentina's recent experience with the IMF has been far less happy. Only last month Mr Kirchner dedicated the bulk of his speech as the host of the Summit of the Americas to blaming the Fund for Argentina's woes. But the benefits to Argentina from its declaration of financial independence are hardly clear-cut. The government was paying an interest rate of 4.2% on its loans from the Fund. It will repay the central bank partly by issuing new debt, which is likely to pay a coupon rate of around 9%.

In practice, Mr Kirchner already had much freedom of manoeuvre. In August 2004, Argentina suspended its agreement with the IMF; since then, it has repaid its debts to the Fund as they fell due. Roberto Lavagna, the economy minister until he was sacked last month, wanted a new agreement with the IMF. But Mr Kirchner had made it clear that he would brook no unwelcome conditions from the Fund. Since the IMF was reluctant to contemplate a default by such a prominent debtor, the president might have got his way.

Thanks to the strength of its recovery, Argentina can just about afford to repay the Fund. Since 2002, exports have increased by around 50% and the central bank's reserves almost tripled, to $27 billion. Even so, markets reacted unfavourably, with both the peso and bond prices falling. That reaction probably had less to do with concerns about lower currency reserves than with the uncertainties Mr Kirchner has now introduced into Argentine economic policy by casting off Mr Lavagna and the IMF in short order.

In the new Argentina, the president's word is law: he chose to enact the prepayment by presidential decree, riding roughshod over the central bank's legal independence. In place of the IMF, one of Argentina's largest creditors is now Hugo Chávez, Venezuela's socialist president.

Mr Kirchner insisted that he will stick to fiscal solvency, “prudent” monetary policy and “a predictable economic environment”. His opponents argue that he is not. His economic team shows no sign of tightening monetary policy even though double-digit inflation has provoked a wave of strikes. Instead, the government has bullied food producers and supermarkets into holding down prices, under threat of higher taxes.

The IMF would have pushed for increases in the tariffs of privatised utilities, many of which have been frozen since 2002. Mr Kirchner's gamble seems to be that he can round up enough investment to overcome critical bottlenecks in energy and infrastructure, allowing growth to continue while easing inflationary pressures. If he fails, Argentina risks a return to the stagflation of its past.

Doing without the Fund is indeed an economic emancipation. But it means that governments must stand or fall purely on their own reputation for financial probity. South America's two largest economies have now put that to the test, in a controlled experiment.

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Bolivia's election

A leftist landslide in the Andes

Dec 20th 2005 | LA PAZ
From The Economist print edition

The scale of Evo Morales's victory has inspired hope and fear in equal measure

AP

Hands up if you want to legalise coca

HE WAS expected to win, but not this big. According to a partial count confirmed by exit polls, in an election on December 18th Evo Morales won some 48% of the vote, well ahead of Jorge Quiroga, a conservative, with 35%. That would give Mr Morales, a socialist and cocaworkers' leader of Aymaran Indian descent, the clearest mandate of any president since democracy was restored to this country of 9m in the early 1980s. So Bolivia will now lurch to the left—and perhaps towards confrontation with the United States.

The count was expected to take several days to complete. But Mr Quiroga and other candidates were quick to concede defeat. Even if Mr Morales falls short of outright victory, the new Congress looks certain to confirm him as Bolivia's first-ever president of indigenous descent when it assembles next month.

Despite the scale of his victory, Mr Morales may fall short of a legislative majority. Unofficial projections suggested that his Movement to Socialism (MAS) will take 12 of 27 seats in the senate, and 53 of 130 seats in the lower house. It appeared to have won only two of the nine regional governors—elected for the first time and expected to wield considerable influence.

Mr Morales once herded his family's llamas before moving to the coca plantations of the Chapare region, where he became a trade union leader. He was the most visible leader of the radical social movements whose protests have toppled two presidents in the past two years.

He has benefited from frustration at the slow pace of economic growth in the poorest republic in South America, and the discredit of its traditional political parties. Until the 1980s, Bolivia boasted a powerful Marxist-led trade union movement. The politics of class has now been partly replaced with the politics of racial identity in a country where more than 60% are of indigenous descent. But poverty rather than racial discrimination was behind the triumph of Mr Morales, a close friend of Hugo Chávez, Venezuela's socialist president, and admirer of Cuba's Fidel Castro.

The size of his mandate will give Mr Morales freedom to push ahead with his programme. Three items are at the top of this: a promise to nationalise the second-largest natural gas reserves in South America; a constituent assembly, to rewrite the constitution and entrench indigenous rights; and an end to eradication of coca, the raw material for cocaine. All risk bruising confrontations.

A hydrocarbons law earlier this year more than doubled taxes on foreign oil and gas firms. In victory, Mr Morales said he would revoke the firms' ownership of gas at the wellhead, and seek service contracts with them instead. The firms, which include Brazil's Petrobras and Spain's Repsol YPF, have invested some $3.5 billion and object to a unilateral change in their contracts. Nationalisation has hitherto been a popular rallying cry rather than a considered policy. That may now change. If it does, it risks alienating Brazil, the biggest importer of Bolivia's gas.

Mr Morales may now be tempted to use the constituent assembly, due to start in July, to dissolve Bolivia's existing institutions and install his own people, as Mr Chávez did in Venezuela in 1999. That would provoke fierce resistance, especially in the gas-rich eastern departments of Santa Cruz and Tarija. In Santa Cruz, which accounts for a third of Bolivia's economy, business leaders have been agitating for greater independence from the centre. Its governor-elect, Rubén Costas, declared that "the era of autonomy has begun" and called for a meeting of the new governors to co-ordinate strategy.

Another challenge for Mr Morales will be relations with the United States. He has promised to legalise the planting of coca, while continuing to fight drug-trafficking. Many officials in Washington, DC, worry that this would be an open invitation to drug traffickers to set up in Bolivia, the third-largest producer of cocaine. The United States can make life difficult for Mr Morales. It is Bolivia's main source of foreign aid, and its trade preferences, due to expire next year, underpin some 100,000 manufacturing jobs.

The fourth and biggest challenge for Mr Morales will be to control his own political base and its utopian expectations. The MAS is a loose and divided party. Neither Mr Morales nor his followers have any experience of government. Its radicals may be intoxicated by the scale of victory. The MAS "doesn't have to wait on Evo," said Román Loayza, one of its leaders. "Governing will be the hard part," Mr Morales admitted to his cheering supporters in a victory speech.

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Asia's tsunami

Relief but little rebuilding

Dec 20th 2005 | KHAO LAK, BANDA ACEH, NEW DELHI AND BANGKOK
From The Economist print edition

AFP

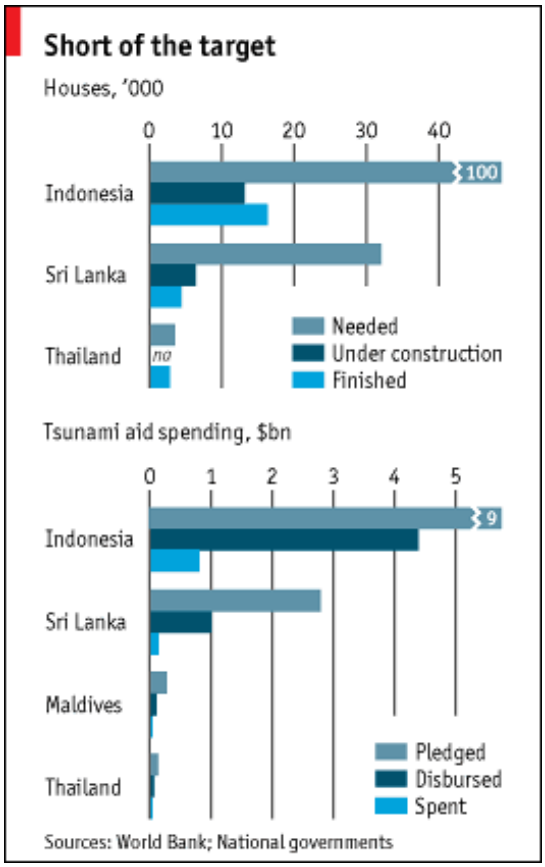
One year on, man has done a surprisingly good job cleaning up after God. The harder part comes next

SOPON DECHKLA survived the tsunami that struck several countries around the Indian Ocean on 26th December 2004, by clinging to a palm tree at the Sofitel Khao Lak resort, where he worked as a driver. His wife, a cleaner at a neighbouring hotel, was one of perhaps 230,000 people who drowned in the deluge. The Sofitel, where 220 died, lies in ruins to this day, its roof tiles torn off and its windows shattered by the force of the waves. Mr Sopon has found work at the Sarojin, one of the first local resorts to reopen after the tsunami. It is fully booked over New Year despite high-season rates that start at $400 a night. But of the 6,500 hotel rooms in the area prior to the disaster, only 1,200 are back in business. Khao Lak, the part of Thailand hardest hit by the tsunami, is recovering. But progress is frustratingly slow—and, in some respects, unnecessarily so.

The same applies even more strongly to the Indonesian province of Aceh and the eastern coast of Sri Lanka, which were poor and war-torn before the tsunami struck, and suffered greater devastation when it did. Of the 1.8m people left homeless by the disaster, a minority have rebuilt their homes; others have found shelter with family or friends, or in relatively solid "transitional" homes provided by aid donors. But some 67,500 tsunami victims in Indonesia are still living in tents a year into the relief effort, while another 50,000 have crowded into temporary barracks. It will take another 18 months or so to build houses for them all (see chart). Some 500,000 Indonesians rely entirely on rations distributed by the World Food Programme. That is an improvement from 750,000 at the beginning of the year, but indicates how many still lack livelihoods.

By most accounts, the emergency-relief effort in the immediate aftermath of the tsunami was a notable success. Unlike in previous disasters of this magnitude, almost no one died from outbreaks of disease, lack of clean water or starvation in the wake of the catastrophe, even in remote islands off India and Indonesia. In some fields, the recovery has proceeded very quickly: most children in tsunami-affected areas are back in school, although not necessarily in a proper building. In Indonesia, for example, the United Nations Children's Fund has set up temporary schools for over 500,000 children.

The long haul



The transition from emergency relief to reconstruction has gone less smoothly. In both Sri Lanka and Indonesia, the authorities set up special agencies to oversee rehabilitation. That made sense, since the mammoth task would have overwhelmed existing government agencies, especially because the waves had swept away many of their staff and offices. But creating a parallel bureaucracy takes time, and is bound to provoke rivalry with the existing one. Indonesia's Rehabilitation and Reconstruction Agency (BRR) was not created until April, and was not fully operational for several months after that.

Money, in theory, should not have been a problem. The outpouring of sympathy after the tsunami resulted in pledges of over $13 billion in international aid of one sort or another. Donations from private individuals and companies alone came to more than $5 billion. Some charities, such as Médecins Sans Frontières, actually started refusing donations for tsunami victims, saying they already had as much money as they could use.

But donors have been slower to spend the money than to raise it. Of the $2 billion or so in promised aid that the government of Sri Lanka is tracking, only $1 billion has actually been handed over, and only $141m of that has been spent. These figures may exaggerate the donors' sluggishness, says Aidan Cox of the United Nations Development Programme (UNDP), who helped set up the tracking system—but they are probably not far off.

In any reconstruction effort, aid workers point out, there is always a trade-off between quality and speed. Given the amount of money they had to spend, and the amount of attention their work was receiving from the media, many agencies decided to make model projects out of their tsunami relief work.

But some delays are the result of simple ineptitude rather than complex planning. During the initial airlift, several charities flew in unsolicited, unwanted donations of winter clothing, which added to congestion at airports. More recently, aid agencies have bombarded fishermen with offers of new boats, but no one has paid to rebuild the factories that used to supply the ice to preserve their catch. No one seems to have spent much time thinking about interim measures. It was only recently that the BRR began a real push to get temporary shelters built to replace tent camps during the long wait for permanent housing.

Nor is the reconstruction effort evenly spread. In Thailand, the richer and relatively unscathed province of Phuket has received more aid than Phangnga, the province which includes Khao Lak. Groups with little political clout, such as illegal Burmese immigrants in Thailand, or Sri Lanka's Muslim minority, have got less than their fair share of assistance.

By the same token, the World Bank complains that fashionable causes, like health and education, have won more attention than equally worthy but less glamorous work, such as dredging swamped ports. Mr Cox of the UNDP says that of the $354m earmarked for road-building in Aceh, only $8m has actually been disbursed. No wonder, then, that of 3,000km (1,900 miles) of road rendered impassable, only 354km have been restored.

By far the biggest obstacle to the reconstruction effort, however, is the sheer scale of the devastation. Long swathes of coastline in Aceh rose or subsided during the earthquake that prompted the tsunami, leaving farmland submerged and coral reefs above water. Fields are strewn with boulders or sodden with salt water. Roads and ports have been washed away, making it hard to bring in heavy equipment or supplies. The temporary roads the Indonesian army has built are already eroding in the monsoon rains.

Skilled labour and building materials are also in short supply. There are simply not enough workmen, machines and supplies in Aceh to build more than 5,000 houses a month. Aid agencies, naturally, want to use timber from legal sources. But neither Sri Lanka nor Indonesia produces enough locally, so it has to be imported from Australia and New Zealand.

Even where land has been cleared and supplies are available, reconstruction often cannot begin straight away. Land disputes are legion, since the tsunami destroyed many boundary markers and deeds, if they existed in the first place. The huge number of deaths has generated plenty of inheritance disputes. Unscrupulous property

developers are said to have seized valuable coastal land in Sri Lanka and Thailand to build new resorts. Suitable land will have to be found for some 30,000 families in Aceh who will have to relocate permanently, because their former property is no longer habitable.

Still, the World Bank and the BRR, in a recent report on the first year of reconstruction in Indonesia, argue that work has actually proceeded quickly compared to past disasters. It took seven years for a city as rich as Kobe in Japan to recover in terms of population, income and industrial activity after its earthquake in 1995, the report notes.

Setting up an early-warning system in the Indian Ocean to reduce the number of casualties from future tsunamis is also proving more difficult than expected. The UN agency in charge of the effort, the Intergovernmental Oceanographic Commission, is hoping to put a system of deep-sea sensors in place by 2008. It has held two conferences to discuss the scheme, but is short of money to implement it.

In the meantime, several countries are pressing ahead with interim systems of their own. India says it will spend 1.25 billion rupees ($26m) to set one up by 2007. Indonesia will soon have the first of half-a-dozen ocean-bed sensors in place off Sumatra. Thailand has built 39 of a planned 62 towers along the Indian Ocean, to house sirens and loudspeakers that will broadcast evacuation instructions in multiple languages. In mid-December, a careless technician activated the system by accident, causing a brief panic among tourists and residents alike.

Some good after evil

Politically, too, the report card is mixed. Optimists had hoped that a sense of solidarity in the wake of the tsunami would help bring an end to long-running conflicts in both Indonesia and Sri Lanka. The separatist rebels of both the Free Aceh Movement (GAM) and the Liberation Tigers of Tamil Eelam had, after all, already embarked on sporadic peace talks with the governments of Indonesia and Sri Lanka. In the end, however, the tsunami succeeded in reducing tensions in Indonesia, while raising them in Sri Lanka.

GAM, which was already on the defensive, seems to have lost weapons and fighters in the tsunami. The destruction of so many of Aceh's boats must have put the squeeze on the smuggling racket it ran to raise money. Since it did not control any territory of its own, it could not exploit the reconstruction effort for political or financial advantage. All this, coupled with some flexibility from Indonesia's new government, contributed to its decision to sign a peace agreement in August, which has proved remarkably durable so far.

The Tigers, on the other hand, do control large areas of northern and eastern Sri Lanka, and so ended up squabbling with the government over the huge amounts of aid on offer. Establishing a mechanism to administer the money meant tackling the very issues—over sovereignty and authority—that have proved the most intractable in Sri Lanka's faltering peace process. Mahinda Rajapakse, Sri Lanka's newly elected president, has threatened to scrap a deal on how to distribute aid in areas controlled by the Tigers, while Velupillai Prabhakaran, the Tigers' leader, has threatened to return to war if the government does not offer an acceptable settlement next year. Renewed fighting would further slow the already sluggish reconstruction drive, and heap tragedy upon tragedy.

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Kashmir's earthquake

In the bleak midwinter

Dec 20th 2005 | DELHI
From The Economist print edition

Many survivors of October's earthquake are still at risk

AFP

And getting bleaker

IF THE tsunami was as unforeseen as it was devastating, the bitter Himalayan winter, and its impact on those who survived Kashmir's earthquake of October, has been entirely predictable. The quake left more than 3m homeless, mostly in Pakistan. Most of these survivors are now preparing for the heavy winter snows, and a winter spent under canvas, or in flimsy temporary shelters. Many will die.

Long-range forecasts suggest that this winter may be somewhat less fierce than last year's. But even in Muzaffarabad, capital of Pakistan-administered Kashmir, where many were left homeless and to where many displaced from higher areas have fled, the nights are freezing. In the mountains, temperatures fall as low as -10°C (14°F). Snow is forecast before Christmas in areas above 2,200 metres (7,200 feet). That would cut off many villages dependent on helicopter drops.

So remote and inaccessible are some of the mountain villages devastated by the quake that some victims are only just beginning to receive help more than two months later. An assessment team from the International Committee of the Red Cross (ICRC) that visited two villages in the Nura Seri area of the Neelum valley in Pakistan-administered Kashmir reported in December that 95% of mud houses had been destroyed, along with 90% of livestock. The maize crop was mostly lost, and all the grinding mills broken. There was an increase in cases of diarrhoea and skin disease, and people with bones broken in the quake had still not been treated.

Both villages had received some help from local charities and the army, but villagers were worried about the hundreds of young children, as well as the widows and others who found it hard to travel to relief-distribution points lower down the valley. Another big earthquake on December 13th, with its epicentre in Afghanistan, caused landslides that made travel even harder in the valley and elsewhere.

Nearly 200,000 people are in makeshift camps, mainly of tents, at lower altitudes. There are concerns about their health, too. Few of the tents are properly adapted to winter conditions. Already people have suffered burns after trying to heat their tents. The UN reckons the relief effort is still short of 2.4m blankets or 1.2m quilts, and of 170,000 plastic sheets and 200,000 tarpaulins to strengthen the tents. Sanitation is patchy, with the habit of outdoor defecation, so dangerous when so many are in such close proximity, hard to break. So there is the risk of both respiratory and intestinal disease. Frustration has also bred domestic violence.

The authorities have been taken aback by the numbers who are insisting on staying put at high altitudes through the winter—perhaps 350,000 in remote villages at above 1,500 metres. Many are afraid to leave their land and

livestock unprotected. Most of those who intend to come down from the mountains have probably already done so. For those who stay behind, the priorities are building tools and materials, especially corrugated-iron sheets, which are in short supply. Some aid workers criticise the government and the UN-led relief operation for failing to identify this need earlier, when the emphasis was on securing tents.

In general, despite some heroic achievements, the relief effort must bear some of the blame for the unfolding disaster. The international response, in comparison with the tsunami, has been mean-spirited. Lavish funds have been promised for reconstruction and rehabilitation. But only 41% of the UN's "flash" appeal for $550m in emergency relief had been delivered by December 15th, when Kofi Annan, the secretary-general, appointed George Bush senior, the former American president, as the UN's special envoy for Pakistan earthquake relief.

Donors, their generosity worn out by a year of spectacular calamities, were tight-fisted, and aid agencies overstretched. "The whole humanitarian sector", says Barbara Stocking, director of Oxfam, a charity, "was at maximum delivery capacity." As a result, the UN operation has been understaffed and underfinanced. Making matters worse, politics has so far prevented the delivery of more than piecemeal assistance from the Indian-administered part of Kashmir.

After October's quake, aid workers were quick to recognise that despite killing fewer people (some 80,000) than the tsunami, this disaster posed an even greater challenge to the world's ability to rescue those in need. The challenge has not yet been met, either by the world's humanitarian agencies or its governments.

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China

Catching up

Dec 20th 2005 | BEIJING
From The Economist print edition

China's economy is overtaking Britain's

"SURPASS Britain and catch up with America": Mao Zedong's slogan is still widely remembered in China. Though his reckless idealism is now officially discredited, there has been satisfaction this week at the results of a reassessment of the country's GDP data. China's economy, the new figures show, is on the verge of overtaking Britain's.

The revision of China's GDP figures was of an order reminiscent of Mao's liberal adjustment of statistics to show his campaign was on target. Now, however, it is the higher figure that is the more credible one. Economists have long believed that China's GDP has been considerably understated thanks mainly to poor measuring of privately run services. The country's first economic census, launched in January, showed that in 2004 it was some 16.8% bigger than the previously announced figure of 13.7 trillion yuan ($1.7 trillion).

In dollar terms at official exchange rates, this means that China replaced Italy as the world's sixth-biggest economy last year. In 2005, it almost certainly surpassed France, and probably squeaked past Britain too. It adds some $284 billion to China's GDP for last year, a figure almost the size of Taiwan's total.

The survey also confirms some long-held suspicions about China's economic make-up: that its service sector is bigger than the one-third of GDP suggested by the old figures (the new data show more than 40%), that consumption is also higher and that investment and savings as a proportion of GDP are lower. This lot of figures look more sustainable than the old lot. But they are still only a best guess at the truth. And, at a sixth the size of America's, China's economy still has a bit of catching-up to do.

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Palestine and Israel

Wobbles all round

Dec 20th 2005 | NABLUS AND JERUSALEM
From The Economist print edition

A split in the Palestinians' ruling party and a threat to the health of Israel's embattled prime minister could shake up Middle East politics all over again

JUST a month after the prime minister, Ariel Sharon, overturned Israeli politics by quitting the ruling Likud to form his own party, Kadima ("Forward"), a similar upheaval has hit the Palestinian Authority (PA). And to confuse matters still more, Kadima's own chances of keeping Mr Sharon in power after the election due in March took a knock after he suffered a stroke, albeit a minor one, on December 18th; his new party, after all, depends massively on the charisma of its 77-year-old leader.

Among Palestinians the uncertainty is just as great. After lengthy feuding over whom the PA's ruling Fatah party would field in the election for Palestine's parliament on January 25th, a crowd of ambitious politicians decided that the machinations of a few old stalwarts to lead the party list had gone too far. Primaries meant to resolve things fairly had collapsed in shooting and chaos. Mahmoud Abbas (Abu Mazen), the Palestinian president, was said to be drawing up a list that would put unpopular old-timers above genuine vote-winners. So, at literally the eleventh hour on December 14th, with registration due to close at midnight, the Fatah "young guard" announced its own party list, calling it Al-Mustaqbal: "the Future".

It is the heaviest blow to Yasser Arafat's crony-ridden legacy since he died a year ago. Palestinian voters blame the corruption and ineptitude rampant in Fatah and the PA mostly on a small group of his loyalists. Yet even though Mr Abbas had fired some of the group, such as Arafat's cousin Musa Arafat (later murdered), earlier in the year, he was reluctant to move against other hangers-on, to the bafflement even of some of his close advisers.

Instead, the young guard has done it for him, making him look indecisive and foolish. Drama turned to farce as Fatah released its official list a whisker before the deadline, only to discover that 14 of the people on it were on the al-Mustaqbal list too. For days, officials tried to negotiate a merger while debates raged over whether that was even legal. In the end there are two lists: one for the young guard, another for the rest.

Paradoxically, the split may be good for Fatah. Voters who might have rejected a unified list with the old guard on it now have an alternative, so the two lists will probably win more seats altogether. That will slightly weaken the main opposition party, the Islamists of Hamas; and it skewers a Third Path party recently set up by a bunch of reformist technocrats, including Mr Abbas's much-admired former finance minister, Salam Fayyad.

Though Mr Abbas lacked the guts to follow Mr Sharon's example himself, he can still stay on top. Al-Mustaqbal should win a good number of seats, cutting the old-timers down to size. The president could then side with al-Mustaqbal to push reforms that Palestinians want: fighting corruption, building the rule of law and investing in job creation. Since these are also Hamas's core issues, it will often have to go along. If Mr Abbas is lucky, that could sharply improve the PA's fortunes.

But the endgame is far from clear. Hamas took control of three key cities in local elections last week, including a landslide in Fatah's former stronghold, Nablus. And Hamas has been cleverer about allocating its parliamentary candidates in a complex new system whereby each voter chooses both a national list and a local representative. How much of the parliament Hamas will take—some say as little as a fifth, others as much as a half—is a guess. The result will dictate how much it subjects both its politics and its militant wing to the PA's authority, something Israel sees as a precondition for any peace talks.

Nor will things be simple afterwards. The PA's young guard has at least three competing leaders, each with his loyalists. Though Marwan Barghouti, stewing in an Israeli jail cell, is undisputedly the most popular, the fiercely ambitious Muhammad Dahlan and the slightly-less-so Jibril Rajoub, two former security-service bosses, will scheme against him and each other. Mr Abbas will need as much guile as Mr Sharon to handle this body politic—not something he has recently displayed.

What if the bulldozer is blocked?

As for Mr Sharon's stroke, however minor, it is a reminder that his time may be short. His new party draws its main strength from him. Should anything else befall him before Israel votes in March, there would be turmoil as his heirs fight it out with a rejuvenated Labour Party on the left and Likud regrouping on the right. This week Binyamin Netanyahu, aged 56, a hawkish former prime minister, was elected as Likud's leader. Expect a tense few months.

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Iraq's election

And now for unity? Alas, not yet

Dec 20th 2005 | BAGHDAD
From The Economist print edition

The turnout was impressive. So compromise will be even harder to achieve

THE sharpest contrast with Iraq's last general election, in January, was in the Sunni Arab towns of the country's centre and west. Last time in those areas there was a mass boycott. This time, on December 15th, streets were festooned with banners, people waited happily in queues outside polling stations, and celebrated in jubilation after exercising their right to vote. Attacks by insurgents were rare, thanks largely to a truce called by several of the better-known groups. An early estimate was that 70% of registered voters, across the country, turned out. But the business of creating a national coalition government, embracing a representative swathe of Shia Arabs, Sunni Arabs and Kurds, will be as tricky as before, when a government took nearly three months to emerge. The haggling, long before official results are out, has already begun.

Preliminary results suggest that the United Iraqi Alliance, a collection of Islamist Shia groups which claims the blessing of Iraq's most influential clergyman, Grand Ayatollah Ali al-Sistani, will win another landslide, though perhaps not a majority of parliament's 275 seats. Several big decisions, including changing the constitution in a bid to placate disaffected Sunnis, need a two-thirds majority, so the UIA must team up with other groups. Last time, its main partner was a Kurdish alliance, which again swept the Kurdish north. But it is essential, if the insurgency is to be contained, that it embraces a strong Sunni list too.

Most Sunni Arabs seem to have voted either for the Iraqi Consensus Front, the more Islamist of the two biggest Sunni groups, or for the Iraqi National Dialogue Front, a more secular outfit that promises to combat alleged Shia sectarianism and rebuild a strong army in which Sunnis and former Baathists play a bigger part. Other Sunni Arabs opted for tribal leaders, independents or a coalition led by a former prime minister, Iyad Allawi, a secular Shia who has courted Sunni voters.

Early reports suggest that Mr Allawi won around 14% in Baghdad (to the UIA's 58%) and less than 10% in most of the southern Shia provinces; it is unclear if this fairly modest performance will prove good enough for him to hold the balance in a coalition, as many American and western diplomats had hoped. A front led by Ahmed Chalabi, a secular Shia who was once the favourite of the neo-conservatives in Washington, did far worse. Many Sunnis said their vote was complementary and not in opposition to the "resistance" against foreign occupation.

Mr Allawi's supporters played on widespread complaints that the present UIA-led government has failed to provide better infrastructure and security and more jobs, and has packed ministries with its own followers. Mr Allawi's pitch resonated with secular-minded professionals, military officers and others wary of clerics and nostalgic for the days of a strong state. But it probably fell flat with poorer Shias who remember petty humiliations at the hands of officials in Saddam Hussein's era. Whatever the UIA government's weaknesses, say many poor Shias, the clerics and their allies "represent us".

The race, in some Shia areas, turned ugly. Islamist Shias pointed out that Mr Allawi was a former Baathist who, in his time as interim prime minister from the summer of 2004 until April this year, had ordered troops into battle against Shia zealots in the holy city of Najaf. This had enraged many Shias, particularly the followers of a firebrand cleric, Muqtada al-Sadr. Many of Mr Allawi's posters were ripped down and several of his campaigners killed. A mob in Nasiriya, in south-central Iraq, burnt down his party building after word spread that a Communist ally of his had insulted the clergy on television. Mr Allawi's supporters say that on election day UIA people stormed into polling stations in some areas and threatened them. Various other Shia, Kurdish and Sunni Arab parties also filed complaints.

Final results are not expected until the end of the first week of the new year. By then Iraq's election commission should have investigated the most serious complaints that could affect the distribution of seats. Many Sunni and secular Shia politicians, however, say they doubt whether the commission will have the nerve to insist that the

dominant parties, such as the UIA, should relinquish seats unfairly won.

In any event, violations probably did not occur on a scale that would much alter parliament's make-up; many took place in Shia areas where Mr Allawi's backers concede that the UIA would have won overwhelmingly anyway. The new electoral system of proportional representation for each of the 18 provinces (rather than one national list, as in January), more or less predetermines the balance of power between Shia, Sunni and Kurd. So the UIA will have first go at shaping a coalition government. All the main parties agree in principle that Iraq would benefit from a unity government embracing representatives of all major ethnic and sectarian groups.

The bitterest arguments will be over the ministries of defence and interior. The Sunnis accuse the present interior minister, Bayan Jaber, who belongs to the strongest of the UIA's component parts, the Iran-backed Supreme Council for Islamic Revolution in Iraq (SCIRI), of packing his ministry with members of SCIRI's fearsome Badr militia and using it as against Sunnis. But SCIRI will be loth to relinquish its hold on the ministry. Adel Abd al-Mahdi, a relatively liberal SCIRI member who is a leading candidate for prime minister, says this is why Iraq needs a federal system: each region should look after its own security. The minority Sunnis, on the other hand, reject federalism, seeing it as a means to curb their influence and break up the country.

But Iraqis have agreed to awkward compromises in the past year: Shias and Kurds, for instance, have more or less accommodated each other over the disputed province of Kirkuk. It is certainly possible, however bitter the rhetoric, that Shias and Sunnis may, in the coming weeks, accommodate each other in a coalition.

Most insurgent groups say they will go on fighting as long as Iraq is occupied by foreign soldiers. Extreme jihadists, such as Abu Musab al-Zarqawi, a Jordanian who proclaims himself al-Qaeda's man in Iraq, will not relent. The real question, however, is whether other insurgent groups, with more secular and nationalist aims, can be persuaded by Sunnis recently elected to parliament to cut local ceasefire deals and take other steps to reduce the violence. It may take a few months to tell.

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Iran and the world

Still not blinking

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Iran spurns a nuclear compromise, as its president denies the Holocaust

Reuters

Ahmadinejad eyes a different sort of prize

THE window for a negotiated way out of the impasse over Iran's nuclear intentions, said European leaders diplomatically last week, "will not remain open indefinitely". Iran seems bent on slamming it shut. Meanwhile, remarks by its president, Mahmoud Ahmadinejad, suggesting the Holocaust was a "myth" and calling for Israel to be "wiped off the map" and reconstituted somewhere in Europe or America, have heightened concern about Iran's nuclear plans, as perhaps they were meant to. Without some unexpected breakthrough, Iran's case may soon be put before the UN's Security Council.

On December 21st, officials from Britain, France and Germany were to meet their Iranian counterparts to explore ways to restart negotiations. These were broken off by Iran in August when it resumed production of uranium gas. It has since said it intends to enrich the gas in centrifuge machines (for reactor fuel, it insists; for bombs, is the suspicion) that it had been assembling at a pilot plant at Natanz before its covert nuclear activities were uncovered three years ago.

In an effort to break the impasse and to give more time for inspectors from the International Atomic Energy Agency (IAEA), the UN's nuclear watchdog, to learn more from Iran, Russia had been offering to enrich the gas Iran produces on its behalf. But Iran appears to have spurned that offer, instead inviting America to help construct new nuclear reactors in the country to allay its suspicions.

Now even the IAEA's Mohamed ElBaradei, recent Nobel peace laureate and a notoriously patient man where Iran is concerned, suggests the world's patience is running out. The Israelis, straining to sound cool while the European trio does the talking, say that, if Iran restarts its centrifuge work, it could have all the skills needed to make fissile material in a matter of months.

So is Iran making bombs, or just trying to keep the option open? Mr ElBaradei points out that his inspectors have no mandate to search for other elements of a weapons programme, only tell-tale samples of uranium or plutonium (and in Iran some of both materials are still not fully explained). But to others, the jigsaw pieces are already forming a troubling picture.

Iran admits that blackmarket suppliers of its centrifuge equipment also offered it technology for shaping the fissile

core of a bomb: it had the documents, but claims it never used them. America has shown Russia, China and others excerpts from a cache of computer files appearing to show work by Iranian technicians to shape a missile cone capable of carrying a nuclear warhead. Iran has long worked closely with North Korea, among others, on a version of its nuclear-capable Nodong missile (also bought by Pakistan) with a range of 1,200km (750 miles). There are worries that the two are collaborating on longer-range Taepodong missiles. Iran is also known to have bought some nuclear-capable cruise missiles from Ukraine. And a North Korean defector alleges that the world's champion tunneller has helped Iran hide its weapons work underground.

So Iran seems determined to crack on, whatever the world thinks. In September the IAEA's 35-nation board declared it "in non-compliance" with its anti-nuclear commitments, and at some point is duty-bound to refer that to the Security Council. Iran still hopes that lucrative energy deals with Russia and China will buy their protection from UN sanctions. The Europeans had hoped to avoid referral too, since UN action is by no means certain, but they now have little option. The only question is whether they can win broad IAEA backing, or whether they and the Americans must do the referring themselves.

And a helpful president

Meanwhile, Mr Ahmadinejad continues to make sulphurous statements that jangle the nerves even of those who believe that Iran's nuclear dabbling is peaceful or bluff. One explanation for his remarks is that he needs to bolster his rapport with the least sophisticated members of his electorate—last week's Holocaust denial was made in the remote south-eastern province of Baluchistan-Sistan—to protect himself from opponents in the intrigue-filled capital.

In any event, Mr Ahmadinejad will take some quieting. He feels he has a bigger mission: to reject the West's "frail civilisation" and instead, with Iran's bumper oil revenues, build a "model Islamic" country. To this end, his cabinet approved big handouts in the south-eastern provinces, which have many poor Sunnis, thus showing that he does not regard Iran's Shia majority as his only constituency of support.

Among Iran's competing elites, however, he may enjoy the wholehearted support only of the hardline Revolutionary Guard—the same institution that America and its allies suspect of using a civilian nuclear programme as cover to build a bomb. The Guard wields much influence on Iran's behalf in next-door Iraq, and could stir up more trouble there for America if it were ever to threaten to clobber Iran's nuclear facilities. And it is hard for Mr Ahmadinejad's numerous opponents, whether in parliament or among the clerical elite, to slap him down publicly merely for echoing the old revolutionary orthodoxy.

He may not expect his Israel-deleting musings to be acted upon. In the same speech, he reiterated the urging of Iran's supreme leader, Ayatollah Ali Khamenei, for a referendum, with the participation of all Palestinian refugees, to determine the status of the current Israeli state. Until then, as Mr Khamenei made clear when he recently received the political leader of Hamas, the Palestinians' main Islamist group, Iran will go on supporting Palestinian violence against Israel. And Hamas has pledged, in return, to retaliate on Iran's behalf if Israel strikes the Islamic Republic.

Scepticism of the intent behind Mr Ahmadinejad's rhetorical fire, combined with the unchallenged authority in foreign affairs of Mr Khamenei, may explain why reactions in Tehran to the president's remarks have been surprisingly mute. For all that, astute Iranians are sadly aware that the president's words can only reduce the already low chances of success in nuclear talks between Iran and the European trio. But Mr Ahmadinejad may not care; his desire to champion "the culture and civilisation of Islam" may come first.

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The proper study of mankind

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From The Economist print edition

New theories and techniques have revolutionised our understanding of humanity's past and present, says Geoffrey Carr (interviewed here)

SEVEN hundred and forty centuries ago, give or take a few, the skies darkened and the Earth caught a cold. Toba, a volcano in Sumatra, had exploded with the sort of eruptive force that convulses the planet only once every few million years. The skies stayed dark for six years, so much dust did the eruption throw into the atmosphere. It was a dismal time to be alive and, if Stanley Ambrose of the University of Illinois is right, the chances were you would be dead soon. In particular, the population of one species, known to modern science as *Homo sapiens*, plummeted to perhaps 2,000 individuals.

The proverbial Martian, looking at that darkened Earth, would probably have given long odds against these peculiar apes making much impact on the future. True, they had mastered the art of tool-making, but so had several of their contemporaries. True, too, their curious grunts allowed them to collaborate in surprisingly sophisticated ways. But those advantages came at a huge price, for their brains were voracious consumers of energy—a mere 2% of the body's tissue absorbing 20% of its food intake. An interesting evolutionary experiment, then, but surely a blind alley.

This survey will attempt to explain why that mythical Martian would have been wrong. It will ask how these apes not only survived but prospered, until the time came when one of them could weave together strands of evidence from fields as disparate as geology and genetics, and conclude that his ancestors had gone through a genetic bottleneck caused by a geological catastrophe.

Not all of his contemporaries agree with Dr Ambrose about Toba's effect on humanity. The eruption certainly happened, but there is less consensus about his suggestion that it helped form the basis for what are now known as humanity's racial divisions, by breaking *Homo sapiens* into small groups whose random physical quirks were preserved in different places. The idea is not, however, absurd. It is based on a piece of evolutionary theory called the founder effect, which shows how the isolation of small populations from larger ones can accelerate evolutionary change, because a small population's average characteristics are likely to differ from those of the larger group from which it is drawn. Like much evolutionary theory, this is just applied common sense. But only recently has such common sense been applied systematically to areas of anthropology that have traditionally ignored it and sometimes resisted it. The result, when combined with new techniques of genetic analysis, has been a revolution in the understanding of humanity's past.

And anthropology is not the only human science to have been infused with evolutionary theory. Psychology, too, is undergoing a makeover and the result is a second revolution, this time in the understanding of humanity's present. Such understanding has been of two types, which often get confused. One is the realisation that many human activities, not all of them savoury, happen for exactly the same reasons as in other species. For example, altruistic behaviour towards relatives, infidelity, rape and murder are all widespread in the animal kingdom. All have their

own evolutionary logic. No one argues that they are anything other than evolutionarily driven in species other than man. Yet it would be extraordinary if they were not so driven in man, because it would mean that natural selection had somehow contrived to wipe out their genetic underpinnings, only for them to re-emerge as culturally determined phenomena.

Understanding this shared evolutionary history with other species is important; much foolishness has flowed from its denial. But what is far more intriguing is the progress made in understanding what makes humanity different from other species: friendship with non-relatives; the ability to conceive of what others are thinking, and act accordingly; the creation of an almost unimaginably diverse range of artefacts, some useful, some merely decorative; and perhaps most importantly, the use of language, which allows collaboration on a scale denied to other creatures.

There are, of course, gaps in both sets of explanations. And this field of research being a self-examination, there are also many controversies, not all driven by strictly scientific motives. But the outlines of a science of human evolution that can explain humanity's success, and also its continuing failings, are now in place. It is just a question of filling in the canvas—or the cave wall.

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The long march of everyman

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It all started in Africa

OUT of Africa, always something new", wrote Caius Plinius Secundus, a Roman polymath who helped to invent the field of natural history. Pliny wrote more truly than he could possibly have realised. For one fine day, somewhere between 85,000 and 60,000 years before he penned those words, something did put its foot over the line that modern geographers draw to separate Africa from Asia. And that something—or, rather, somebody—did indeed start something new, namely the peopling of the world.

Writing the story of the spread of humanity is one of the triumphs of modern science, not least because the ink used to do it was so unexpected. Like students of other past life forms, researchers into humanity's prehistoric past started by looking in the rocks. The first fossilised human to be recognised as such was unearthed in 1856 in the Neander Valley near Dusseldorf in Germany. Neanderthal man, as this skeleton and its kin became known, is now seen as a cousin of modern humans rather than an ancestor, and subsequent digging has revealed a branching tree of humanity whose root can be traced back more than 4m years (see article).

Searching for human fossils, though, is a frustrating exercise. For most of their existence, people were marginal creatures. Bones from periods prior to the invention of agriculture are therefore excedingly rare. The resulting data vacuum was filled by speculation scarcely worthy of the name of theory, which seemed to change with every new discovery. Then, in the 1980s, a geneticist called Allan Wilson decided to redefine the meaning of the word "fossil". He did so in a way that instantly revealed another 6 billion specimens, for Wilson's method made a fossil out of every human alive.

Living fossils

In retrospect, Wilson's insight, like many of the best, is blindingly obvious. He knew, as any biologist would, that an organism's DNA carries a record of its evolutionary past. In principle, looking at similarities and differences in the DNA sequences of living organisms should allow a researcher to reconstruct the family tree linking those organisms. In practice, the sexual mixing that happens with each generation makes this tedious even with today's DNA-analysis techniques. With those available in the 1980s it would have been impossible. Wilson, however, realised he could cut through the problem by concentrating on an unusual type of DNA called mitochondrial DNA.

Mitochondria are the parts of a cell that convert energy stored in sugar into a form that the rest of the cell can use. Most of a cell's genes are in its nucleus, but mitochondria, which are the descendants of bacteria that linked up with one of humanity's unicellular ancestors some 2 billion years ago, retain a few genes of their own. Mitochondrial genomes are easy to study for three reasons. First, they are small, which makes them simple to analyse. Second, mitochondria reproduce asexually, so any changes between the generations are caused by mutation rather than sexual mixing. Third, in humans at least, mitochondria are inherited only from the mother.

In 1987, Rebecca Cann, one of Wilson's students, applied his insight to a series of specimens taken from people whose ancestors came from different parts of the world. By analysing the mutational differences that had accumulated since their mitochondria shared a common ancestor, she was able to construct a matriline (or, perhaps more accurately, a matritree) connecting them.

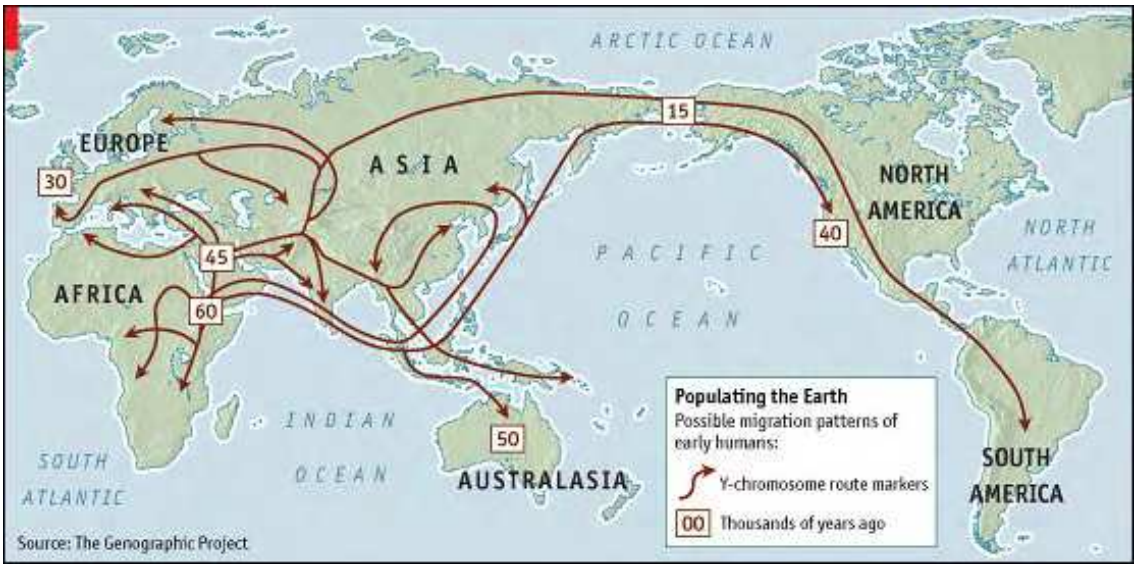
The result was a revelation. Whichever way you drew the tree (statistics not being an exact science, there was more than one solution), its root was in Africa. *Homo sapiens* was thus unveiled as an African species. But Dr Cann

went further. Using estimates of how often mutations appear in mitochondrial DNA (the so-called molecular clock), she and Wilson did some matridendrochronology. The result suggests that all the lines converge on the ovaries of a single woman who lived some 150,000 years ago.

There was much excited reporting at the time about the discovery and dating of this African "Eve". She was not, to be clear, the first female *Homo sapiens*. Fossil evidence suggests the species is at least 200,000 years old, and may be older than that. And you can now do a similar trick for the patriline using part of the male (Y) chromosome in the cell nucleus, because this passes only from father to son. Unfortunately for romantics, the most recent common ancestor of the Y-chromosome is a lot more recent than its mitochondrial equivalent. African Adam was born 60,000-90,000 years ago, and so could not have met African Eve. Nevertheless, these two pieces of DNA as they have weaved their ways down the generations have filled in, in surprising detail, the highways and byways of human migration across the face of the planet.

Sons of Adam, daughters of Eve

Detail, however is not the same as consensus, and there are two schools of thought about how people left Africa in the first place. Appropriately, some of their main protagonists are at the rival English universities of Oxford and Cambridge. The Oxford school, championed by Stephen Oppenheimer, believes that the descendants of a single emigration some 85,000 years ago, across the strait of Bab el Mandeb at the southern end of the Red Sea, are responsible for populating the rest of the world. The Cambridge school, championed by Robert Foley and Marta Mirazón Lahr, agrees that there was, indeed, a migration across this strait, though probably nearer to 60,000 years ago. However, it argues that many non-Africans are the descendants of at least one subsequent exodus.



Both schools agree that the Bab el Mandebites spread rapidly along the coast of southern Arabia and thence along the south coast of Asia to Australia, though Dr Oppenheimer has them turning inland, too, once they crossed the strait of Hormuz. But it is in describing what happened next that the two versions really part company, for it is here that the descendants of the Oxford migration run into the eruption of Toba.

That Toba devastated South and South-East Asia is not in doubt. Thick layers of ash from the eruption have been found as far afield as northern Pakistan. The question is whether there were people in Asia at the time. One of the most important pieces of evidence for Dr Oppenheimer's version of events is some stone tools in the ash layer in Malaysia, which he thinks were made by *Homo sapiens*. Molecular clocks have a regrettable margin of error, but radioactive dating is a lot more accurate. If he is right, modern humans must have left Africa before the eruption. The tools might, however, have been crafted by an earlier species of human that lived there before *Homo sapiens*.

For Dr Oppenheimer, the eruption was a crucial event, dividing the nascent human population of Asia into two disconnected parts, which then recolonised the intermediate ground. In the Cambridge version, *Homo sapiens* was still confined to Africa 74,000 years ago, and would merely have suffered the equivalent of a nuclear winter, not an ash-fall of up to five metres—though Dr Ambrose and his colleagues think even that would have done the population no good.

The Cambridge version is far more gentle. The descendants of its subsequent exodus expanded north-eastwards into central Asia, and thence scattered north, south, east and west—though in a spirit of open-mindedness, Sacha Jones, a research student in Dr Foley's department, is looking in the ash layer in India to see what she can find there.

Which version is correct should eventually be determined by the Genographic Project, a huge DNA-sampling study organised by Spencer Wells, a geneticist, at the behest of America's National Geographic Society and IBM. But both already have a lot in common. Both, for example, agree that the Americas seem to have been colonised by at least two groups. The Cambridge school, though, argues that one of these is derived ultimately from the first Bab el Mandeb crossing while the other is descended from the later migrants.

Both also agree that Europe received two waves of migration. The ancestors of the bulk of modern Europeans came via central Asia about 35,000 years ago, though some people in the Balkans and other parts of southern Europe trace their lines back to an earlier migration from the Middle East. But the spread of agriculture from its Middle Eastern cradle into the farthest reaches of Europe does not, as some researchers once thought, seem to have been accompanied by a mass movement of Middle Eastern farmers.

The coming together of two groups of humans can be seen in modern India, too. In the south of the subcontinent, people have Y-chromosomes derived almost exclusively from what the Cambridge school would interpret as being northern folk (and the Oxford school as the western survivors of Toba). However, more than 20% of their mitochondria arrived in Asia with the first migration from Africa (or, according to taste, clung on along the south-eastern fringes of the ash plume).

That discovery speaks volumes about what happened when the two groups met. It suggests that many modern south Indians are descended from southern-fringe women, but few from southern-fringe men—implying a comprehensive conquest of the southerners by the northerners, who won extra southern wives.

This observation, in turn, helps explain why Y-chromosome Adam lived so much more recently than mitochondrial Eve. Displacement by conquest is one example of a more general phenomenon—that the number of offspring sired by individual males is more variable than the number born by individual females. This means that more males than females end up with no offspring at all. Male gene lines therefore die out faster than female ones, so those remaining are more likely, statistically, to converge in the recent past.

Successful male gene lines, though, can be very successful indeed. Students of animal behaviour refer to the top male in a group as the “alpha”. Such dominant animals keep the others under control and father a large proportion, if not all, of the group's offspring. One of the curiosities of modern life is that voters tend to elect alpha males to high office, and then affect surprise when they behave like alphas outside politics too. But in the days when alphas had to fight rather than scheme their way to the top, they tended to enjoy the sexual spoils more openly. And there were few males more alpha in their behaviour than Genghis Khan, a man reported to have had about 500 wives and concubines, not to mention the sexual opportunities that come with conquest. It is probably no coincidence, therefore, that one man in every 12 of those who live within the frontiers of what was once the Mongol empire (and, indeed, one in 200 of all men alive today) have a stretch of DNA on their Y-chromosomes that dates back to the time and birthplace of the great Khan.

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Meet the relatives

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A large and diverse family

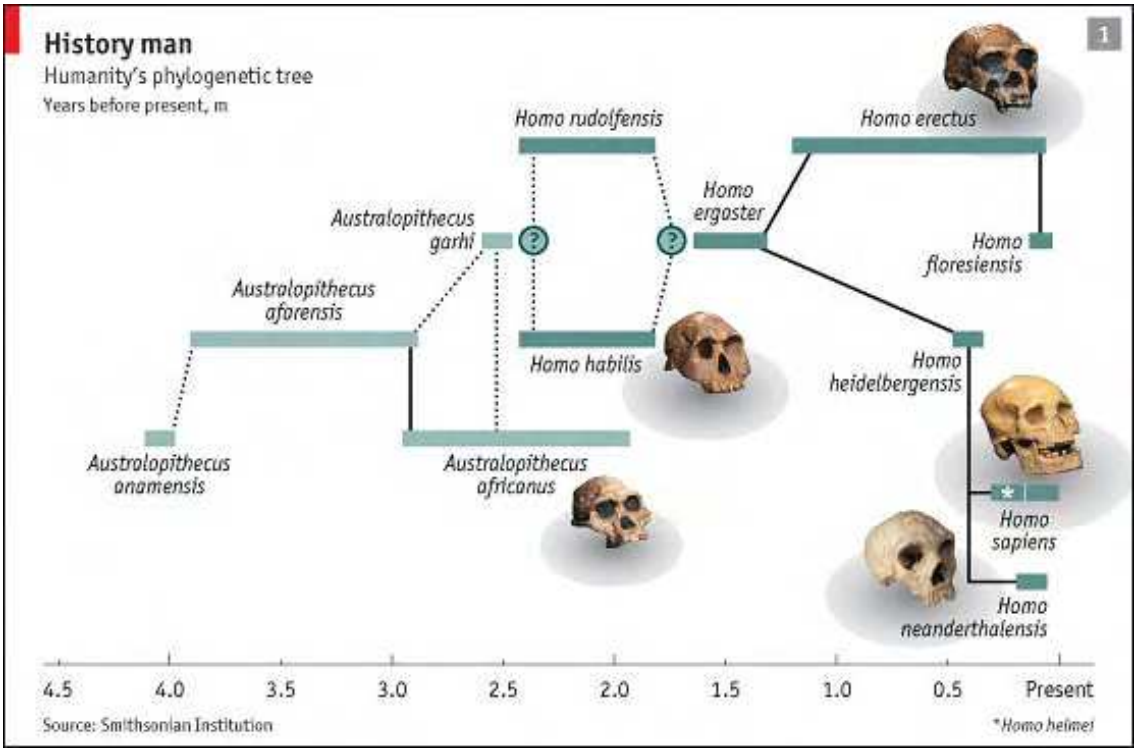
WHEN *Homo sapiens* emerged as a species, he was not alone. The world he entered was already peopled by giants and dwarfs, elves, trolls and pixies—in other words, creatures that looked humanlike, but were not the genuine article. Or, at least, not as genuine as *Homo sapiens* has come to believe himself to be.

Like the story of *Homo sapiens* himself, the story of the whole human family begins in Africa. About 4.5m years ago, probably in response to a drying of the climate that caused forest cover in that continent to shrink, one species of great ape found itself pushed out into the savannah, an ecological niche not normally occupied by apes. Over the next 300,000 years these apes evolved an upright stance. No one know for sure why, but one plausible explanation, advanced by Peter Wheeler of John Moores University in Liverpool, is that standing upright reduces exposure to sunlight. To an animal adapted to the forest's shade, the remorseless noonday sun of the savannah would have been a threat. Dr Wheeler's calculations suggest that walking upright decreases exposure at noon by a third compared with going on all fours, since less of the body's surface faces the overhead sun. Humanity, in the form of *Australopithecus anamensis*, had arrived.

Australopithecines of various species lasted for over 3m years. But half-way through that period something interesting happened. One of them begat a species known to science variously as *Homo rudolfensis* and *Homo habilis*. All modern great apes make tools out of sticks and leaves to help them earn their living, and there is no reason to believe that this was not true of australopithecines. But, aided by hands that no longer needed to double as part-time feet, *Homo habilis* began to exploit a new and potent material that needs both precision and strength to work—stone. This provided its immediate descendants with a powerful technology, but also gave its distant descendants in human palaeontology laboratories an additional way of tracing their ancestry, for stone tools often survive where bones do not.

Homo habilis's successor species, *Homo erectus*, did not bestride the globe in the way that his eventual descendant *Homo sapiens* did, but he certainly stuck his nose out of Africa. Indeed, the first fossil *erectus* discovered was in Java, in 1891, and the second one, several decades later, turned up in China, near Beijing. It was not until 1960 that *erectus* bones were found in Africa.

Homo erectus is a frustrating species. His tools are found all over the southern half of Eurasia, as well as in Africa. But China and Java aside, his bones are scarce outside Africa. There are two skullcaps from Georgia and half of one from India. He did, however, leave lots of descendants.



Naming fossils is a game that beautifully illustrates Henry Kissinger's witticism about academic disputes being so bitter because the stakes are so low. The best definition of a species that biologists have been able to come up with is "a group of creatures capable of fertile interbreeding, given the chance", which clearly makes it hard to determine what species a particular fossil belongs to. Researchers therefore have to fall back on the physical characteristics of the bones they find. That allows endless scope for argument between so-called splitters, who seem to want to give a new name to every skull discovered, and lumpers, who like to be as inclusive as possible.

Some splitters, for example, argue that the African version of *Homo erectus* should be called *Homo ergaster*. Whatever the niceties, it is clear that by 500,000 years ago, if not before, *Homo erectus* was breaking up into anatomically different populations. Splitters would like to turn the Georgia fossils, an early twig of the *erectus* tree, into *Homo georgicus*. There is also *Homo rhodesiensis*, found in southern Africa, *Homo heidelbergensis* from Europe, and a whole drawer's-worth of specimens known to some as *Homo helmei* and to others as archaic *Homo sapiens*.

How little is really known, though, was thrown into sharp relief by the announcement just over a year ago that yet another species, *Homo floresiensis*, had been found. It was discovered on Java's nearish neighbour island, Flores. Finding a new species of human is always exciting, but what is particularly intriguing about *Homo floresiensis* is how small it was—barely a metre tall when fully grown. Perhaps inevitably, though to the disgust of its discoverers, *Homo floresiensis* became known to journalists as the hobbit, after J.R.R. Tolkien's fictional humanoid. *Homo neanderthalensis*, the descendant of *Homo heidelbergensis*, by contrast, was if not a giant then at least a troll. Though he stood five or ten centimetres shorter than a modern European *Homo sapiens*, the thickness of his bones suggests he was a lot heavier.

Both *Homo neanderthalensis* and *Homo floresiensis* were certainly around when *Homo sapiens* left Africa—

whichever version of that story turns out to be the correct one. There may also have been some lingering populations of other hominid species. That raises the intriguing question of what happened when these residents met the *sapiens* wave.

Some researchers believe there was interbreeding, echoing the ideas of an older school of palaeoanthropology called multiregionalism. The multiregionalists thought either that pre-*sapiens* hominids were all a vast, interbreeding species that gradually evolved into *sapiens* everywhere, or, against all Darwinian logic, that *Homo sapiens* arose independently in several places by some unknown process of parallel evolution.

As recently as 2002, Alan Templeton, then at the University of Washington at St Louis, claimed to have found a number of genetic trees whose roots were 400,000-800,000 years old, and yet which included non-Africans. That, if confirmed, would support multiregionalism. Meanwhile, John Relethford, of the State University of New York's campus at Oneonta, has criticised the conclusions of studies on mitochondrial DNA extracted from the bones of Neanderthals. This does not resemble DNA from any known modern humans, which led the authors of the work to conclude there was no interbreeding. Dr Relethford points out that Neanderthal DNA brought into the *sapiens* population by interbreeding could subsequently have been lost by chance in the lottery of who does and who does not reproduce. Similar losses are known to have happened in Australia, where mitochondrial DNA from human fossils is absent from modern Australians.

Most students of the field, though, think there was no interbreeding, full stop. Either *Homo sapiens* persecuted his cousins into extinction or, with his superior technology, he outhunted, outgathered and outbred them. The next question is where that technology—or, rather, the brainpower to invent and make it—came from.

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If this is a man

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Why it pays to be brainy

THANKS to Dr Cann and her successors, the story of how *Homo sapiens* spread throughout the world is getting clearer by the day. But why did it happen? What was it that gave the species its edge, and where did it come from? Here, the picture blurs.

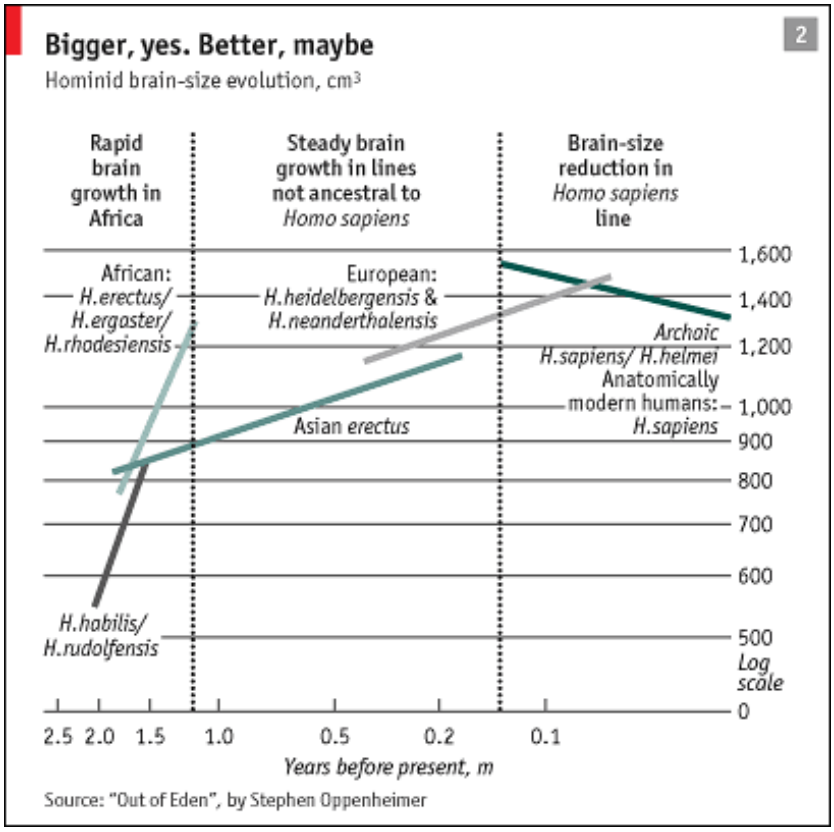
Until recently, it was common to speak of an Upper Palaeolithic revolution in human affairs—what Jared Diamond, of the University of California at Los Angeles, called the Great Leap Forward. Around 40,000 years ago, so the argument ran, humanity underwent a mental step-change. The main evidence for this was the luxuriant cave art that appeared in Europe shortly after this time. Palaeopsychologists see this art as evidence that the artists could manipulate abstract mental symbols—and so they surely could. But it is a false conclusion (though it was widely drawn before Dr Cann's work) that this mental power actually evolved in Europe. Since all humans can paint (some, admittedly, better than others), the mental ability to do so, if not the actual technique, must have emerged in Africa before the first emigrants left. Indeed, evidence of early artistic leanings in that continent has now turned up in the form of drilled beads made of shells and coral, and—more controversially—of stones that have abstract patterns scratched on to them and bear traces of pigment.

That certainly pushes the revolution back a few tens of millennia. The oldest beads seem to date from 75,000 years ago, and an inspired piece of lateral thinking suggests that clothing appeared at about the same time. Mark Stoneking and his colleagues at the Max Planck Institute for Evolutionary Anthropology in Leipzig, Germany, applied the molecular-clock technique to human lice. They showed that head lice and body lice diverged 75,000 years ago. Since body lice live in clothing, and most other species of mammal support only one species of louse, the inference is that body lice evolved at the same time as clothes.

That is an interesting coincidence, and some think it doubly interesting that it coincides with the eruption of Toba. It may be evidence of a shift of thought patterns of the sort that the Upper Palaeolithic revolutionaries propose. On the other hand, there are also signs of intellectual shifts predating this period. Sally McBrearty, of the University of Connecticut, and Alison Brooks, of George Washington University, have identified 14 traits, from making stone blades to painting images, which they think represent important conceptual advances. Ten of them, including fishing, mining, engaging in long-distance trade and making bone tools, as well as painting and making beads, seem to be unique to modern *Homo sapiens*. However, four, including grinding pigments (for what purpose remains unknown, but probably body painting), stretch back into the debatable past of *Homo helmei*.

Given the fragmentary nature of the evidence from Africa, which has not been explored with the same sort of archaeological fine-tooth comb as Europe, the speed of the emergence of modern behaviour is still debatable. One thing, however, that clearly played no part in distinguishing *Homo sapiens* from his hominid contemporaries was a bigger brain.

Modern people do, indeed, have exceedingly large brains, measuring about 1,300 cm^3. Other mammals that weigh roughly the same as human beings—sheep, for example—have brains with an average volume of 180cm^3. In general, there is a well-established relationship between body size and brain size that people very much do not fit. But as Dr Oppenheimer shows (see chart 2), most of this brain expansion happened early in human evolutionary history, in *Homo habilis* and *Homo erectus*. The brains of modern people are only about 6% larger than those of their immediate African predecessors. Perhaps more surprisingly, they are smaller than those of Neanderthals. There is no doubt that this early brain growth set the scene for what subsequently happened to *Homo sapiens*, but it does not explain the whole story, otherwise *Homo erectus* would have built cities and flown to the moon.



Flying to the moon may, in fact, be an apt analogy. Just as a space rocket needs several stages to lift it into orbit, so the growth of human intelligence was probably a multi-stage process, with each booster having its own cause or causes. What those causes were, and when they operated, remains a matter of vehement academic dispute. But there are several plausible hypotheses.

The most obvious idea—that being clever helps people to survive by learning about their surroundings and being able to solve practical problems—is actually the least favoured explanation, at least as the cause of the Great Leap Forward. But it was probably how intelligence got going in the pre-human primate past, and thus represented the first stage of the rocket.

Many primates, monkeys in particular, are fruit-eaters. Eating fruit is mentally taxing in two ways. The first is that fruiting trees are patchily distributed in both space and time (though in the tropics, where almost all monkeys live, there are always trees in fruit somewhere). An individual tree will provide a bonanza, but you have to find it at the right moment. Animals with a good memory for which trees are where, and when they last came into fruit, are likely to do better than those who rely on chance. Also, fruit (which are a rare example of something that actually *wants* to be eaten, so that the seeds inside will be scattered) signal to their consumers when they are ready to munch by changing colour. It is probably no coincidence, therefore, that primates have better colour vision than most other mammals. But that, too, is heavy on the brain. The size of the visual cortex in a monkey brain helps to explain why monkeys have larger brains than their weight seems to warrant.

The intelligence rocket's second stage was almost certainly a way of dealing with the groups that fruit-eating brought into existence. Because trees in the tropics come into fruit at random, an animal needs a lot of fruit trees in its range if it is to avoid starving. Such a large range is difficult for a lone animal to defend. On the other hand, a tree in fruit can feed a whole troop. For both these reasons, fruit-eating primates tend to live in groups.

But if you have to live in a group, you might as well make the most of it. That means avoiding conflict with your rivals and collaborating with your friends—which, in turn, means keeping track of your fellow critters to know who is your enemy and who your ally. That, in turn, demands a lot of brain power.

One of the leading proponents of this sort of explanation for intelligent minds is Robin Dunbar, of Liverpool University in England. A few years ago, he showed that the size of a primate's brain, adjusted for the size of its body, is directly related to the size of group it lives in. (Subsequent work has shown that the same relationship holds true for other social mammals, such as wolves and their kin.) Humans, with the biggest brain/body ratio of all, tend to live in groups of about 150. That is the size of a clan of hunter-gathers. Although the members of such a clan meet only from time to time, since individual families forage separately, they all agree on who they are. Indeed, as Dr Dunbar and several other researchers have noticed, many organisations in the modern world, such as villages and infantry companies, are about this size.

Living in collaborative groups certainly brings advantages, and those may well offset the expense of growing and maintaining a large brain. But even more advantage can be gained if an animal can manipulate the behaviour of others, a phenomenon dubbed Machiavellian intelligence by Andrew Whiten and Richard Byrne, of the University of St Andrews in Scotland.

Size isn't everything

Monkeys and apes manage this to a certain extent. They seem to have a limited "theory of mind"—the ability to work out what others are thinking—which is an obvious prerequisite for the would-be simian politician. They also engage in behaviour which, to the cynical human zoologist, looks suspiciously like lying. But it is those two words, "cynical" and "suspiciously", that give the game away. For it is humans themselves, with their ability to ponder not only what others are thinking, but also what those others are thinking about them, who are the past masters of such manipulation.

And it is here that the question of language enters the equation. Truly Machiavellian manipulation is impossible without it. And despite claims for talking chimpanzees, parrots and dolphins, real language—the sort with complex grammar and syntax—is unique to *Homo sapiens*.

Dr Dunbar's hypothesis is that language arose as a substitute for the physical grooming that other group-living primates use to maintain bonds of friendship. Conversation—or gossip, as he refers to it—certainly does seem to have the same bond-forming role as grooming. And, crucially for the theory, groups rather than just pairs can "groom" each other this way. Dr Dunbar sees the 150-strong group size of *Homo sapiens* as both a consequence and a cause of verbal grooming, with large groups stimulating the emergence of language, and language then permitting the emergence of larger groups still. Language, therefore, is the result of a process of positive feedback.

Once established, it can be deployed for secondary purposes. Furthering the Machiavellian ends outlined by Dr Whiten and Dr Byrne would be one such purpose, and this would drive other feedback loops as people evolve more and more elaborate theories of mind in order to manipulate and avoid manipulation. But language would also promote collaborative activities such as trade and the construction of sophisticated artefacts by allowing specialisation and division of labour.

Not everyone agrees with the details of this thesis, but the idea that the evolution of mental powers such as language has been driven by two-way feedback loops rather than one-way responses to the environment is a powerful one. Terrence Deacon, a researcher at the University of California at Berkeley, for instance, thinks that language evolved in a feedback loop with the complex culture that it allowed humans to create. Changes in culture alter and complicate the environment. Natural selection causes evolutionary changes that give people the means to exploit their new, more complex circumstances. That makes the cultural environment still more complicated. And so on. Dr Deacon believes this process has driven the capacity for abstract thought that accounts for much of what is referred to as intelligence. He sees it building up gradually in early hominids, and then taking off spectacularly in *Homo sapiens*.

The peacock mind

Perhaps the most intriguing hypothesis about the last stage of the mental-evolution rocket, though, is an idea dreamed up by Geoffrey Miller, of the University of New Mexico. He thinks that the human mind is like a peacock's tail, a luxuriant demonstration of its owner's genetic fitness.

At first sight this idea seems extraordinary, but closer examination suggests it is disturbingly plausible. Lots of

features displayed by animals are there to show off to the opposite sex. Again, this involves a feedback loop. As the feature becomes more pronounced, the judge becomes more demanding until the cost to the displayer balances the average reproductive benefit.

Frequently, only one sex (usually the male) does the showing off. That makes the sexually selected feature obvious, because it is absent in the other sex. Dr Miller, though, argues that biologists have underplayed the extent to which females show off to males, particularly in species such as songbirds where the male plays a big part in raising the young, and so needs to be choosy about whom he sets up home with. Like male birds, male humans are heavily involved in childrearing, so if the mind is an organ for showing off, both sexes would be expected to possess it—and be attracted by it—in more or less equal measure.

Dr Miller suggests that many human mental attributes evolved this way—rather too many, according to some of his critics, who think that he has taken an interesting idea to implausible extremes. But sexual selection does provide a satisfying explanation for such otherwise perplexing activities as painting, carving, singing and dancing. On the surface, all of these things look like useless dissipations of energy. All, however, serve to demonstrate physical and mental prowess in ways that are easy to see and hard to fake—precisely the properties, in fact, that are characteristic of sexually selected features. Indeed, a little introspection may suggest to the reader that he or she has, from time to time, done some of these things to show off to a desirable sexual partner.

Crucially, language, too, may have been driven by sexual selection. No doubt Machiavelli played his part: rhetoric is a powerful political skill. But seduction relies on language as well, and encourages some of the most florid speech of all. Nor, in Dr Miller's view of the world, is the ability to make useful things exempt from sexual selection. Well-made artefacts as much as artful decorations indicate good hand-eye co-ordination and imagination.

Whether Dr Miller's mental peacock tails have an underlying unity is unclear. It could be the ability to process symbols; or it could be that several different abilities have evolved independently under a single evolutionary pressure—the scrutiny of the opposite sex. Or it could be that sexual selection is not the reason after all, or at least not the main part of it. But it provides a plausible explanation for modern humanity's failure to interbreed with its Neanderthal contemporaries, whether or not such unions would have been fertile: they just didn't fancy them.

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The concrete savannah

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Evolution and the modern world

THE eruption of Toba marked the beginning rather than the end of hostilities between *Homo sapiens* and the climate. Views differ about whether the eruption was the trigger, but it is clear that an ice age started shortly afterwards. Though the species spread throughout Asia, Australia and Europe (the populating of the Americas is believed by most researchers to have happened after the ice began to retreat, although not everybody agrees), it was constrained by ecological circumstances in much the same way as any other animal. The world's population 10,000 years ago was probably about 5m—a long way from the imperial 6-billion-strong species that bestrides the globe today.

The killer application that led to humanity's rise is easy to identify. It is agriculture. When the glaciers began to melt and the climate to improve, several groups learned how to grow crops and domesticate animals. Once they had done that, there was no going back. Agriculture enabled man to shape his environment in a way no species had done before.

In truth, agriculture turned out to be a Faustian bargain. Both modern and fossil evidence suggests that hunter-gatherers led longer, healthier and more leisured lives than did farmers until less than a century ago. But farmers have numbers on their side. And numbers beget numbers, which in turn beget cities. The path from Catalhoyuk in Anatolia, the oldest known town, to the streets of Manhattan is but a short one, and the lives of people today, no matter how urbane and civilised, are shaped in large measure by the necessities of their evolutionary past.

That fact has, however, only recently begun to be widely recognised. For many years, psychology, like anthropology, operated in a strange intellectual vacuum. Psychologists did not deny man's evolutionary past, but they did not truly acknowledge it, either. Many in the field seemed to feel that humanity had somehow transcended evolution. Indeed, those of a Marxist inclination more or less required that to be true. How else could people be perfectible? Dissenters were usually treated with disdain. But, at about the time that Dr Cann was publishing the work that would expose the fallacy of multiregionalism, a group who dubbed themselves "evolutionary psychologists" began to stick their heads above the academic parapets.

Eve's psyche

Studying the behaviour of humans is more difficult than studying that of other animals, for two reasons. One is that the students come from the same species as the studied, which both reduces their objectivity and causes them to take certain things for granted, or even fail to notice them altogether. The other is that human culture is, indeed, far more complex than the cultures of other species. There is nothing wrong with studying that culture, of course. It is endlessly fascinating. But it is wrong to assume that it is the cause of human nature, rather than a consequence; that is akin to mistaking the decorative finishes of a building for the underlying civil engineering. The aim of evolutionary psychology is to try to detect the Darwinian fabric through the cultural decoration, by asking basic questions.

Many of those questions, naturally, address sensitive issues of sex and violence—another reason evolutionary psychologists are not universally popular. David Buss, of the University of Texas, demonstrated experimentally what most people know intuitively—that women value high status in a mate in a way that men do not. Helen Fisher, of Rutgers University, has dissected the evolutionary factors that cause marriages to succeed or fail. She thinks, for example, that the tendency of females to prefer high-status mates is at odds with the increasing economic independence of women in the modern world. Laura Betzig, of the University of Michigan, put an explicitly Darwinian spin on the tendency of powerful men to accumulate harems.

Randy Thornhill, of the University of New Mexico, has shown that physical beauty is far from being in the eye of the beholder. In fact, those features rated beautiful, most notably bodily symmetry, are good predictors of healthy, desirable attributes such as strong immune systems—in other words, aesthetic sensibilities have evolutionary roots.

Karl Grammer, of the Ludwig Boltzmann Institute of Urban Ethology, in Vienna, has shown that body odour, too, is correlated with symmetry and linked to immunological strength. Dr Thornhill, meanwhile, has raised quite a few hackles by arguing that a propensity to rape is an evolved characteristic of men rather than a pathology. Even murder has not escaped the attention of the evolutionary psychologists. Martin Daly and Margo Wilson, of McMaster University in Hamilton, Ontario, showed that adults are far more likely to kill their stepchildren than their biological children—a fact that had escaped both police forces and sociologists around the world. They then dared to propose a Darwinian explanation for this, namely that step-parents have no direct interest (in the evolutionary sense) in the welfare of stepchildren.

However, something similar to this list of human behaviours that have yielded to evolutionary psychology could be found in many species. Indeed, it was often comparisons with other species that sparked the investigations in the first place. The males of many other species gather harems, but females rarely do so; female swallows prefer their mates to have symmetrical tails and they are also more faithful to high-status males; both male lions and male baboons kill the infants of females in groups they have just taken over; and so on. Where evolutionary explanations of behaviour become really interesting is when they home in on what is unique to humanity.

Playing games with the truth

One uniquely human characteristic is the playing of games with formal rules. Evolutionary psychology has not yet sought to explain this, but it has exploited it extensively to develop and test its ideas. In their different ways, the games devised by Leda Cosmides and John Tooby, of the University of California at Santa Barbara, and Robert Axelrod, of the University of Michigan, have underpinned that part of evolutionary psychology devoted to uniquely human behaviour. For not all games are about competition. Many also require trust, a sense of justice and sometimes self-denial.

Cases of animals apparently making sacrifices, occasionally of their own lives, to help others are not rare in nature, but at first sight they are surprising. What is in it for the sacrificer? The usual answer, worked out in the 1960s by William Hamilton, is that the beneficiary is a relative whose reproductive output serves to carry genes found in the sacrificer into the next generation, albeit at one remove. Translated into human terms, this is good old-fashioned nepotism. In a few species, though—mankind being the most obvious—people will make sacrifices for non-relatives, or "friends". The assumption is that the favour will be paid back at some time in the future. The question is, how can the sacrificer be sure that will happen?

Dr Axelrod used a branch of maths called game theory to come up with at least part of the answer. He showed mathematically that as long as you can recognise and remember your fellow creatures, it makes sense to follow the proverb "fool me once, shame on you; fool me twice, shame on me" and trust them provided they don't cheat you. (Sometimes in science it is necessary to prove the obvious before you go on to the less obvious.) Dr Cosmides and Dr Tooby used a different sort of game to show that humans are thus, as Dr Axelrod's model suggests they should be, acutely sensitive to unfair treatment. They did this by presenting some problems of formal logic to their experimental subjects as a card game. When the problems were presented using cards with letters and numbers

on opposite faces, and the subjects had to work out which cards needed to be turned over to yield the required answers, people found them hard to do and more often than not got them wrong. However, when the problems were presented in a form that required the subjects to decide whether people were being treated fairly or not, they found them really easy. The researchers' conclusion is that humans are hard-wired not for logic but for detecting injustice.

Trust, and the detection and punishment of injustice, lie at the heart of human society. They are so important that people will actually harm their own short-term interests to punish those they regard as behaving unfairly. Another game, for example, involves two people dividing a sum of money ($100, say). One makes the division and the other accepts or rejects it. If it is rejected, neither player gets any money. On the face of it, even a 99:1 division should be accepted, since the second player will be one dollar better off. In practice, though, few people will accept less than a 70:30 split. They will prefer to punish the divider's greed rather than take a small benefit themselves.

This makes no sense in a one-off transaction, but makes every sense if the two participants are likely to deal with each other repeatedly. And that, before the agricultural population boom (and also, for the most part, after it) was the normal state of affairs. The people an individual dealt with routinely would have been the members of his circle of 150. Strangers would have been admitted to this circle only after prolonged vetting. Such bonds of trust, described by Matt Ridley, a science writer, as "the origins of virtue" in his book of that name, underlie the exchanges of goods and services that are the basis of economics. They may also, though, underlie another sensitive subject that social scientists do not like biologists treading on: race.

Robert Kurzban, a colleague of Dr Cosmides and Dr Tooby, took the racial bull by the horns by reversing the old saw about beauty. Dr Thornhill's work overturned the folk wisdom that beauty is in the beholder's eye by showing that universal standards of beauty have evolved, and there are good reasons for them. Dr Kurzban, by contrast, thinks he has shown that race really does exist only in the eye—or, rather, the mind—of the beholder, not the biology of the person being beheld, and does so for good Darwinian reasons.

First impressions count

Dr Kurzban observes that the three criteria on which people routinely, and often prejudicially, assess each other are sex, age and race. Judgments based on sex and age make Darwinian sense, because people have evolved in a context where these things matter. But until long-distance transport was invented, few people would have come across members of other races. Dr Kurzban believes that perceptions of racial difference are caused by the overstimulation of what might be called an "otherness detector" in the human mind. This is there to sort genuine strangers, who will need to work hard to prove they are trustworthy, from those who are merely unfamiliar members of the clan. It will latch on to anything unusual and obvious—and there is little that is more obvious than skin colour. But other things, such as an odd accent, will do equally well. Indeed, Dr Dunbar thinks that the speed with which accents evolve demonstrates that they are used in precisely this sort of way.

If Dr Kurzban is right (and experiments he has done suggest that assessments of allegiance are easily "rebadged" away from skin colour by recognisable tokens such as coloured T-shirts, as any sports fan could probably have told him), it explains why race-perception is such a powerful social force, even though geneticists have failed to find anything in humans that would pass muster as geographical races in any other species. In fact, one of the striking things about *Homo sapiens* compared with, say, the chimpanzee is the genetic uniformity of the species. The only "racial" difference that has a well-established function is skin colour. This balances the need to protect the skin from damage by ultraviolet light (which requires melanin, the pigment that makes skin dark) and the need to make vitamin D (which results from the action of sunlight on a chemical in the skin). This explains dark, opaque skins in the tropics and light, transparent ones nearer the poles. The test is that dark-skinned arctic dwellers, such as the Inuit of North America, have diets rich in vitamin D, and so do not need to make it internally. As to other physical differences, they may be the result of founder effects, as described by Dr Ambrose, or possibly of sexual selection, which can sometimes pick up and amplify arbitrary features.

Darwinian thinking can lead in other unexpected directions, too. Pursue Dr Buss's observation about women preferring high-status males to its logical conclusion, and you have a plausible explanation for the open-endedness of economic growth. Psychologists of a non-evolutionary bent sometimes profess themselves puzzled by the fact that once societies leave penury behind (the cited income level varies, but $10,000 per person per year seems about the mark), they do not seem to get happier as they get richer.

That may be because incomes above a certain level are as much about status as about material well-being. Particularly if you are a man, status buys the best mates, and frequently more of them. But status is always relative. It does not matter how much you earn if the rest of your clan earn more. People (and men, in particular) are always looking for ways to enhance their status—and a good income is an excellent way of doing so. Aristotle Onassis, a man who knew a thing or two about both wealth and women, once said: "If women didn't exist, all the money in the world would have no meaning." Perhaps the founding father of economics is not really Adam Smith,

who merely explained how to get rich, but Charles Darwin, who helped to explain why.

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Starchild

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Evolution is still continuing

WHAT, then, of the future? Sitting in the comfort of the concrete savannah, has humanity stopped evolving?

To help answer that question, it is instructive to look at a paper published earlier this year by Gregory Cochran. Dr Cochran, a scientist who, in the tradition of Darwin himself, works independently of an academic institution, looked at the unusual neurological illnesses commonly suffered by Ashkenazi Jews. Traditional wisdom has it that these diseases, which are caused by faulty genes, are a consequence of inbreeding in a small, closed population. The fact that they persist is said to show that human evolution has stopped in our ever more mollycoddled and medicalised world. Dr Cochran begged not only to differ, but to draw precisely the opposite conclusion. He sees these diseases as evidence of very recent evolution.

Until a century or two ago, the Ashkenazim—the Jews of Europe—were often restricted by local laws to professions such as banking, which happened to require high intelligence. This is the sort of culturally created pressure that might drive one of Dr Deacon's feedback loops for mental abilities (though it must be said that Dr Deacon himself is sceptical about this example). Dr Cochran, however, suspects that this is exactly what happened. He thinks the changes in the brain brought about by the genes in question will be shown to enhance intelligence when only one copy of a given disease gene is present (you generally need two copies, one from each parent, to suffer the adverse symptoms). Indeed, in the case of Gaucher's disease, which is not necessarily lethal, there is evidence that sufferers are more intelligent than average. If Ashkenazi Jews need to be more intelligent than others, such genes will spread, even if they sometimes cause disease.

The fact is, you can't stop evolution. Those who argue the opposite, pointing to the survival thanks to modern medicine of people who would previously have died, are guilty of more than just gross insensitivity. They have tumbled into an intellectual pitfall that has claimed many victims since Darwin first published his theory. Evolution is not about progress. It is about adaptation. Sometimes adaptation and progress are the same. Sometimes they are the opposite. (Ask a tapeworm, which has "degenerated" into a mere egg-laying machine by a very successful process of adaptation.) If a mutation provides a better adaptation, as Dr Cochran thinks these disease genes did in financiers, it will spread. Given the changes that humanity has created in its own habitat, it seems unlikely that

natural selection has come to a halt. If Dr Deacon is right, it may even be accelerating as cultural change speeds up, although the current rapid growth in the human population will disguise that for a while, because selection works best in a static population.

The next big thing

Evolution, then, has not stopped. Indeed, it might be about to get an artificial helping hand in the form of genetic engineering. For the fallacy of evolutionary progress has deep psychological roots, and those roots lie in Dr Miller's peacock-tail version of events. The ultimate driver of sexual selection is the need to produce offspring who will be better than the competition, and will thus be selected by desirable sexual partners. Parents know what traits are required. They include high intelligence and a handful of physical characteristics, some of which are universal and some of which vary according to race. That is why, once the idea of eliminating disease genes has been aired, every popular discussion on genetic engineering and cloning seems to get bogged down in intelligence, height and (in the West) fair hair and blue eyes.

This search for genetic perfection has an old and dishonourable history, of course, starting with the eugenic movement of the 19th century and ending in the Nazi concentration camps of the 20th, where millions of the confrères of Dr Cochran's subjects were sent to their deaths. With luck, the self-knowledge that understanding humanity's evolution brings will help avert such perversions in the future. And if genetic engineering can be done in a way that does not harm the recipient, it would not make sense to ban it in a liberal society. But the impulse behind it will not go away because, progressive or not, it is certainly adaptive. Theodosius Dobzhansky, one of the founders of genetics, once said that “nothing in biology makes sense except in the light of evolution”. And that is true even of humanity's desire to take control of the process itself.

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Acknowledgment and sources

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The author would like to acknowledge the help of the numerous researchers named in the text. The following books and website may be of interest to readers who wish to learn more about the subject.

"Out of Eden", by Stephen Oppenheimer (Constable and Robinson, paperback)

"The Journey of Man", by Spencer Wells (Penguin, paperback)

"From Lucy to Language", by Donald Johanson and Blake Edgar (Weidenfeld and Nicolson)

"Grooming, Gossip and the Evolution of Language", by Robin Dunbar (Faber and Faber, paperback)

"The Symbolic Species", by Terrence Deacon (W.W. Norton)

"The Mating Mind", by Geoffrey Miller (William Heinemann)

"The Origins of Virtue", by Matt Ridley (Penguin, paperback)

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Oil

Life after Lee

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Landov

On his watch Exxon Mobil became the second-biggest company in the world. But now Lee Raymond is going

LEE RAYMOND, the combative chairman of Exxon Mobil, could be the most successful oilman in a century. During his decade and a half at the helm, his firm—a direct descendant of the original Standard Oil Trust founded by John D. Rockefeller in 1882—has outperformed its peers on almost every financial measure. The oil titan will finally step down at the end of 2005 in favour of Rex Tillerson, a company insider who is his hand-picked successor.

Some worry that the new man cannot possibly fill Mr Raymond's oversized boots. Since he became chairman and chief executive in 1993, Exxon's market capitalisation has shot up from $80 billion to some $360 billion. During that time, the firm paid out more than $68 billion in dividends. Sales rose from $117 billion in 1992 to about $300 billion in 2004—with annual profits soaring from about $5 billion to more than $25 billion over the same period (and probably even higher in 2005 for the full-year). And Exxon Mobil does all this with fewer employees today than Exxon alone had, before its acquisition of Mobil in 1999.

Oilmen are divided over whether Mr Raymond's departure will herald a change at Exxon. Most observers give him ample credit for the company's performance, but reckon Exxon's culture is now so strong that even Mr Raymond's departure will not rock the boat: "Tillerson has it easy," insists one Wall Street analyst.

Two important aspects of Exxon are, in fact, sure to outlive Mr Raymond. First is the company's famous discipline with capital. Unlike many rivals, which often focus on short-term results and oil-price movements, Exxon invests in—or walks away from—projects based on long-term returns on capital assuming moderate oil prices. That explains why the firm consistently beats its rivals on returns on capital, regardless of oil prices.

For example, Exxon has refused to splurge on over-priced assets despite the huge cash pile it has thanks to high oil prices (a discipline not exercised by its smaller American rivals Chevron and ConocoPhilips, which are now gobbling up, respectively, Unocal and Burlington Resources). Arjun Murti of Goldman Sachs echoes the sentiment of most analysts when he declares: "Exxon Mobil is the only oil company investors will not worry about in terms of foolish spending."

The second Exxon virtue likely to help Mr Tillerson is the firm's collection of oil and gas assets. It pumps hydrocarbons in more than two dozen countries, ranging from Russia to Qatar to Venezuela, and has on-the-

ground experience in dozens more. Exxon's spread helps diversify its risks; and it positions the firm well to leap into new growth markets, such as China. Exxon has long led the oil majors in investment in research and technology, keeping up such work even when the oil price collapse of the late 1990s led rivals to slash funding. All this gives the firm an edge in bidding for oil. During recent auctions in Alberta, Canada, and in Angola, the firm's know-how helped it secure the best fields, while rivals overpaid for marginal ones.

Compared with its peers, Exxon is certainly in an enviable position. But take a broader view of the challenges facing the entire industry, and it appears that Mr Tillerson's job may not prove so easy after all. One astute oil expert insists that "Lee is getting off the ship at just the right time." This contrarian argues that there are several factors that could yet trip up Mr Tillerson as he takes over Exxon.

New hands on the tiller

The most serious threat to Exxon is replacing reserves. All oil companies must work hard to replace the hydrocarbons they use up. Under Mr Raymond, Exxon has done better than its peers.

Unfortunately, the firm's past success makes today's task even harder. Because Exxon is now such a Goliath, it now must replace many more barrels each day than it used to. Where to find those extra barrels? Alas, most of the world's remaining oil (and all of its cheap oil) is in the hands of OPEC or Russia. But as the balance of power has shifted away from consumers, oil producers have begun pulling back the welcome mat from the majors. Vladimir Putin has all but shut the door to big western oil firms with his recent clumsy effort to create a state-run oil giant in Russia. The Middle East, where two-thirds of the world's proven oil reserves lie, is mostly off limits to the big private-sector oil companies. And just days ago, the majors were forced into accepting humiliating and costly contract renegotiations by Hugo Chávez, the president of Venezuela. So far only Exxon has refused to play ball.

The big oil companies are therefore struggling to replace their reserves. But, in an age that favours diplomatic skills as well as technical ones, Exxon may be at a particular disadvantage. Under Mr Raymond, the firm has developed a reputation for arrogance that has at times rankled host governments. Mr Putin, for example, is rumoured to have been offended by Mr Raymond' s high-handed manner in pursuing Yukos, a now-defunct private Russian oil firm, without government blessing. In contrast, Lord Browne, BP's boss, played his cards right and bagged a half-share in TNK-BP, a middling Russian oil firm. Mr Raymond's abrasive style also reportedly annoyed Saudi Arabia's oil minister so much that it was partly responsible for scuppering a big investment deal. Some say (only half in jest) that Exxon's real challenge now is not below ground, where its excellence is unsurpassed, but in managing "above-ground risks". If the firm's reputation for conceit outlives Mr Raymond, it will hurt efforts to court countries with energy resources.

Green with envy

It will also prove a handicap in dealing with environmentalism, another emerging threat to the business. Mr Raymond's gruff handling of the *Exxon Valdez* oil spill in Alaska needlessly turned an unfortunate accident into a *cause célèbre* for greens everywhere. Yet another court hearing on the spill is due in January, 17 years after the original pollution. A greater threat to the firm arises from Exxon's combative position on climate change. Mr Raymond's heartfelt and extreme scepticism about climate science (a few years ago he insisted to *The Economist* that global warming is a giant hoax) has helped fuel boycotts of his firm and led to shareholder lawsuits.

It would be nice to believe that Mr Tillerson is just the man to transform Exxon into a gentler giant. After all, other successors of famously crusty chief executives—GE's Jeffrey Immelt and Jack Welch come to mind—have tried to soften their firms' message without sacrificing profits. As even its rivals concede, Exxon has one of the best records in the industry on health and environmental issues. And Exxon's bureaucracy appears to have softened the edges of Mr Raymond's extreme views of late: the firm's advertising now acknowledges that climate change is real and warrants action, and Exxon has given $100m to Stanford University to develop new low-carbon technologies.

So will Mr Tillerson's arrival mark a clean break with the Raymond era? Don't count on it. He is, after all, a company man raised in Exxon's self-confident culture. He comes from the exploration and production division, which accounts for most of the firm's profits—and most of its swagger. Lee Raymond's legacy is probably safe in Rex Tillerson's hands. But whether that is still a good thing for Exxon and its shareholders remains to be seen.

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Energy

Shock to the system

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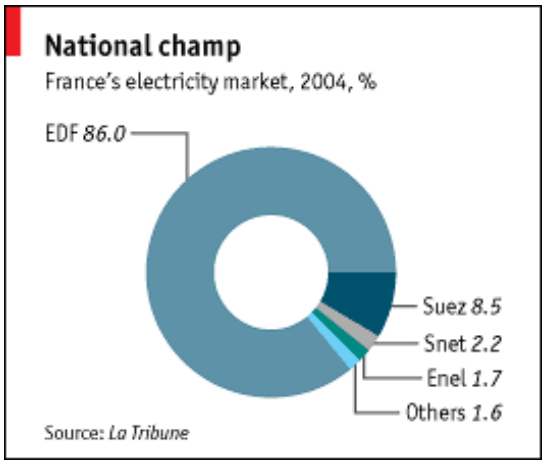
From The Economist print edition

France's electricity giant is being shaken up



THE new year could get off to a cold and dark start in France. The Communist-backed CGT union is threatening to strike at the end of January in protest at reforms planned by Electricité de France (EDF), Europe's largest electricity company. EDF, which was recently partially privatised with a sale of 15% of the company, plans to cut 6,000 jobs in France. The unions are furious at what they regard as a clumsy attempt to please the financial markets.

The clash could be but a curtain-raiser if EDF's boss, Pierre Gadonneix, pushes ahead with his plan to transform the giant utility—sales last year were €46.9 billion ($58.2 billion)—into a more efficient company. EDF employees work shorter hours, enjoy longer holidays and get more special benefits than workers in any other French company. A bestselling book about how to do almost nothing at work entitled "Bonjour Paresse" ("Hello Laziness") was written by Corinne Maier, an EDF employee. The difficulties of reforming the company are, arguably, reflected by the fact that although Ms Maier was subjected to a disciplinary hearing, she kept her job as an economic adviser on how to make EDF more efficient.

Mr Gadonneix, a former boss of Gaz de France, was appointed chief executive in September 2004. His brief was to sort out the electricity firm's most urgent problems: gargantuan unfunded pension liabilities, loss-making operations in Argentina and an argument with the Italian government over market access.

François Roussely, Mr Gadonneix's predecessor, did most of the negotiating with unions about last year's change of status of EDF from a public enterprise (which means the state guarantees its debts) into a limited company governed by company law. To get the unions' backing for the new status and the planned flotation—or at least to convince them not to bring the country to a standstill—EDF had to promise to leave the pension arrangements unchanged. Compared with the pension headache, the solution to the company's international troubles was almost easy: Mr Gadonneix decided to abandon the company's operations in Argentina rather than continue losing money. He also reached an agreement with the Italian government involving some reciprocal opening of markets.

Having paved the way for a share offering, Mr Gadonneix says he is happy with the result, despite lukewarm interest from institutional investors and the shares' lacklustre performance. He argues that investors will eventually recognise that EDF's status as the world's biggest generator of nuclear power is a big advantage, since 95% of its electricity production is independent of the oil price.

Even so, investors remain sceptical about a company with high debts and ageing nuclear reactors—where the room for manoeuvre is so restricted by the obligation to reconcile the conflicting interests of the state, unions and other shareholders. Indeed, the really tough part of Mr Gadonneix's job lies ahead. He needs to increase profits and productivity of the multinational's French operations, which employ 110,000 people in the production, transmission and distribution of energy. By some estimates EDF has twice as many workers as utilities of comparable size.

In the foreseeable future, government officials will continue to dictate prices for electricity (and keep them artificially low) and unions will oppose any change to the workforce's perks. Mr Gadonneix admits that reforming his company is fraught with risk. Yet he is determined to improve its productivity and profitability. While EDF made a net profit of €1.3 billion last year, he says net profit will be at least €2.6 billion this year and should increase by at least 10% every year in the next three years. He will cut more jobs by not replacing employees who retire or leave.

Mr Gadonneix has drawn up a road map, but it is not clear that he will have enough time to complete the journey. In two years he will be 65, the official retirement age. But if he makes a good start on his reforms, Mr Gadonneix may be that rare EDF employee who is persuaded to stay on, rather than take his pension.

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Buy a gift for someone.

Daiei

It's alive!

Dec 20th 2005 | TOKYO
From The Economist print edition

Reports of Daiei's rebirth have been greatly exaggerated

AFP

Why not linger awhile?

AS THE gloom surrounding Japan's economy and financial markets has lifted, even some of the country's most notorious corporate zombies have a new spring in their step. Between August and November, Daiei, once the biggest retailer in Japan, saw its share price almost double—before giving back some of its gains. Foreign institutional investors were doing most of the buying. They see Daiei as a huge turnaround in the making. Riding this wave of overseas optimism, Daiei has just designed a fresh logo, and is celebrating this with a "rebirth sale" lasting throughout December.

At its peak in 1995, sales at the supermarket-cum-household-goods-cum-clothing store topped ¥2.5 trillion ($20.8 billion). But heady success and over-expansion in the 1980s and early 1990s, was followed by a seemingly unstoppable fall and a long struggle to survive. Six painful years later Daiei had a whopping ¥2.6 trillion of consolidated debt, leaving it with larger interest payments than income. Selling its best assets, including its money-making convenience stores, cut the firm's debt but left Daiei with unattractive and less lucrative outlets. Its fate was Japan's biggest corporate headache, with huge implications for unemployment and the survival of the biggest banks.

Earlier this year the Industrial Revitalisation Corporation of Japan (IRCJ), a government body charged with saving troubled companies, stepped in. Daiei got an extra ¥400 billion of financial aid—topping up the ¥520 billion it received in 2001 and 2002, after banks were muscled into waiving some debt. The IRCJ took a 34% stake in Daiei, and new private-sector investors also stumped up some cash.

Daiei now has three years (the legal deadline for IRCJ involvement) to turn itself around. Then the IRCJ must sell its stake. Under its new plan, Daiei has already closed 53 unprofitable stores and reduced its staff by 8%. Five of the remaining 210 stores have been remodelled and are off to a good start. New ideas centring on food—Daiei's strongest seller—are coming together. Its balance sheet has lost much of its unhealthy pallor.

Still, Daiei's future remains dubious. Its operating-profit forecast of ¥4 billion for the year to February 2006 is less than 1% of its interest-bearing debt. Japan's interest rates are still close to zero, but should they rise, debt payments would balloon. Daiei is best at selling food, but this has a slender profit margin especially for a retailer famous for low prices. Sceptics also worry that Daiei has not ditched its weak clothing and household-goods units. The company's sales fell sharply in September and October, although they later nudged up a bit in November.

It does not help that the supermarket industry as a whole is struggling in Japan. Growth in consumer spending is fizzling out, and competition is cut-throat, as trendier stores and new shopping malls open. Even the two leaders, Ito-Yokado and Aeon, are seeing sales slip. Wal-Mart's bid to turn around Seiyu, another supermarket and recent favourite among foreign investors, is floundering. It is difficult to see Daiei truly reviving, when even its stronger rivals are faltering.

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Economist.com

Mobile phones

Somalia calling

Dec 20th 2005 | BOSSASO AND HARGEISA
From The Economist print edition

An unlikely success story

SOMALIA does not spring to mind as a good place to do business, but in telecoms at least it has something to teach the world. A call from a Somali mobile phone is generally cheaper and clearer than a call from anywhere else in Africa. The trick is the lack of regulation. Somalia has had no government since 1991. It was cut off for a while, but then private mobile companies moved in and found that the collapsed state provided a curious competitive advantage.

No government means no state telecoms company to worry about, no corrupt ministry officials to pay off (there is no ministry), and the freedom to choose the best-value equipment. Taxes, payable to a tentative local authority or strongman, are seldom more than 5%, security is another 5% (more in Mogadishu), and customs duties are next to nothing. There is no need to pay for licences, or to pay to put up masts. It is a vivid illustration of the way in which governments, for all their lip service to extending communications, can often be more of a hindrance than a help.

Golis Telecom, based in the northern port of Bossaso, is one of the larger forces in the Somali market. Its chairman, Adan Sheikhdon Ali, hopes for 50,000 mobile subscribers by 2007—not bad for a country where many people still live a nomadic life in the desert beyond a mobile signal. Golis spent $2.7m on Chinese equipment to set up its service and has since expanded its reach across the country, drawing in customers with its low prices. You can call anywhere on the planet on a Golis mobile for $0.30 a minute. Pricing is especially important in Somalia, says Mr Ali, because many potential customers are illiterate and so immune to advertising.

The present dozen or so operators should eventually be whittled down to three or four. To survive, Golis has diversified into landlines and broadband. But even with price wars, profits are high. Somalis' gift of the gab, and the difficulty of getting in and out of the country, put a premium on extended telephone calls. Golis recouped its initial investment in two years. But the risks are also high. Investment is all up front. There is no insurance available. And then there is Somalia itself. From a distance it looks like a free-market nirvana after *The Economist*'s heart; but closer up it better resembles an armed oligarchy, capable of taking anything it wants at the point of a gun—even a Nokia handset.

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Face value

Ho ho ho

Dec 20th 2005
From The Economist print edition

Stone

Santa Claus transformed Christmas. Can he also transform investors' perceptions of it?

THE man who created the world's most valuable brand remains an elusive figure when not in his grotto, often shielded by the tinted windows of a personalised executive sleigh that serves as his mobile office. Friends say that money is not his motivation, even though he is apparently seeking now to sell off all or part of his privately held empire. Talking to the elves, seeing the children smile, guiding the creative side of Christmas, these are the things that drive him, he says.

Yet the owner of the trademark beard and belly-laugh is also a man shrewd enough to have grasped the money-making potential of Christmas when nobody saw it as a commercial enterprise at all, and many thought it doomed to merge with New Year. Santa Claus, a former bishop from Asia Minor, thought differently. He did not invent Christmas, he likes to say now, but he did re-invent it. Probably nobody has ever seen the link between reindeer and revenues more clearly. "Besides", says one high-ranking elf, "he throws great parties."

Santa's quirky management style, combining large quantities of mulled wine with a tight grip on the reins, has turned the ho-hum into the ho-ho-ho. Once just a two-day affair in churches and private houses, Christmas is now the biggest-spending item in most western countries after health care and defence. The logistics of that success require Santa to be in thousands of malls by day and down millions of chimneys by night. Advisers say he relies on a series of proprietary algorithms derived from Heisenberg's uncertainty principle, which allow him to be in an infinite number of places simultaneously so long as nobody believes he is really in any one of them.

Of course, Christmas has to grapple with the fundamental uncertainties affecting all modern industries. They include globalisation, the spread of the internet and the pervasive power of Wal-Mart. All of these seem to be working, for the moment at least, in Christmas's favour. Global warming may pose a long-term risk. The ageing of the population in many of Santa's major markets is less of a worry. Even if it means relatively fewer children, whether naughty or nice, it may also mean more indulgent grandparents.

But the biggest question overhanging Christmas is one of succession. What if some accident sleighed Santa tomorrow? Christmas would probably survive as a religious festival, economists say, but spending patterns might never recover—throwing much of the world into a perpetual mid-winter recession. That, says Santa, is the main reason he now wants to involve outside shareholders and professional managers, or, as he calls them, "subordinate Clauses", in the owning and running of Christmas.

Some analysts think the man in the red suit has simply spotted a good moment to sell. With liquidity booming around the world, Santa can hope to get a fat price for all or part of his franchise from "sledge-funds" run by rich private investors. Kris Kringle, owner of snowbiz.org, a Santa-watching web site, believes that Santa's decision to bring in outside managers also reflects the failure of his past attempts at diversification using in-house elves and Lapps. A British health-care subsidiary, the National Elf Service, lost money and was taken over by the government. The Lapp-Dance chain of folk clubs in Scandinavia was sold to a trade buyer who relaunched them for an adult audience.

There has been speculation, too, that Santa wants to cut back on his business commitments in order to launch a political career in one of the many countries where he could claim citizenship, possibly Canada. After decades of being told that government was "no Santa Claus", commentators say, voters would welcome a government that was, indeed, Santa Claus.

Still saintly

Santa himself denies any such plan, insisting that Christmas will remain his top priority. If he does ever get more free time, he says, he will do more good works. He rarely uses his official title of Saint Nicholas, but it clearly rankles with him that the Catholic Church demoted him in 1969, by making observance of his feast day (December 6th) optional—a move he blames on "pro-Easter" forces in the Vatican. He is also a saint in the Orthodox Church, he points out, and enjoys worldwide acceptance as a patron saint of children, thieves, bankers, prisoners, sailors, unmarried girls and pawnbrokers, not to say Greece and Russia. All that means quite a backlog of problems, some of them going back to medieval times.

Whatever the motives for a Christmas sale, the prospectus, if it comes, will be much in demand. With the Arctic as its home and a fat man as its trademark, the business looks, says one potential investor, "like a cross between the Alaska purchase and Kentucky Fried Chicken". The assets will be almost all intangible, but "what do you expect—it is the season for goodwill", says another. The more pressing question will be whether the trade marks and copyrights assembled by Santa can guarantee real effective ownership of Christmas worldwide, and for how long.

A banker close to the deal says the small print here will be reassuring. He says that Santa quietly bought up a lot of outstanding rights and licences after a bid to "steal" Christmas, by the Grinch, came dangerously close to succeeding in 1957. This same source also plays down worries about the size of the health and pension benefits owed to the elves and reindeer. Outsiders have wildly over-estimated the scale of Santa's toy-making operations, he says. They require only a tiny workforce. More than 99% of Christmas gifts for children are bought in shops by parents, and are merely "co-branded" by Santa at the moment of giving. The real key to the deal, this banker concludes, is whether Santa sticks by his promise of continued involvement. For Christmas to go on working, he says, "you just have to believe in Santa Claus".

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World trade

Hard truths

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From The Economist print edition

AFP

The Doha trade round is still alive, but hardly healthy

OFFICIALS had done their best to lower expectations about what might be achieved, and it was just as well. The ministerial meeting of the World Trade Organisation in Hong Kong on December 13th-18th amounted to little more than an expensive experiment in sleep deprivation. For six days (and quite a few nights) politicians from 149 countries haggled, accompanied by almost 6,000 officials and watched by nearly 3,000 journalists and more than 1,000 people from non-governmental organisations. Large parts of the host city were shut down as police were attacked by demonstrators, most prominently South Korean rice farmers furious at the prospect of freer trade in their markets. As everyone left, there was not much to show for all their efforts.

The meeting's most notable accomplishment was that it did not collapse as previous gatherings had in Seattle, in 1999, and Cancún, in 2003. The main new achievement was to agree on a date, the end of 2013, for the elimination of export subsidies on farm goods. There was also a much vaunted package of goodies for the world's least developed countries, which gained promises of free access to rich-countries' markets for at least 97% of their goods. America gave West Africa's cotton producers some vague pledges that it would reduce domestic cotton subsidies more quickly and ambitiously than other farm supports. And rich countries were eager to sound generous about promises of new "aid for trade".

However, on the issues at the heart of the Doha round of trade talks—cutting farm tariffs, freeing trade in industrial goods and opening services markets—almost no progress was made. The ministers managed only to set themselves a new deadline, the end of April, for making decisions they have long ducked.

Before leaving Hong Kong, bleary-eyed officials tried to put on a brave face. Pascal Lamy, the WTO's director-general, argued that the Doha round was "back on track" after a "period of hibernation". Though conceding that real progress was modest, he claimed with admirable precision that the Doha round was now 60% complete, compared with 55% at the start of the week. More important, he argued, the Hong Kong gathering had "rebalanced" the WTO's agenda in favour of poor countries and created the "political energy" needed to make progress next year.

For all the grandiloquence, however, there is no hiding that last week's meeting did little to promote free trade. Even the agreement to ditch agricultural export subsidies by 2013 is less impressive than it sounds. The WTO's members have long promised to get rid of them; the only question has been when. Although export subsidies are a

potent symbol of the rich world's iniquitous farm policies, they have little impact on global commerce. According to the World Bank, their abolition would yield only 2% of the theoretical gains from free trade in agriculture. And they are shrinking anyway. The European Union is the biggest user, subsidising its exports, mainly of dairy products and sugar, to the tune of €2.8 billion ($3.4 billion) a year. Reform of the EU's Common Agricultural Policy, particularly of sugar supports, will reduce these subsidies sharply and by 2013 most will have gone.

The attention given in Hong Kong to the promises made to the poorest countries was in part a symptom of the lack of progress elsewhere. The promises are in any case less altruistic and generous than they might look. For some, they were a handy way to score political points. The EU, which already gives duty-free and quota-free access to the poorest countries and which produces little cotton, saw a chance to embarrass the Americans and divert attention from Europe's own refusal to make deeper cuts in farm tariffs. The Americans offered just enough on cotton and on duty-free access to avoid being painted as enemies of the poor.

For all that, the focus on the poorest members is a prerequisite for moving forward in other areas. The WTO works by consensus, so the poorest countries in effect have a veto, even though their share of world trade is tiny. A cynical view might be that the promises made in Hong Kong are an effort to buy them off now so that they will not block a bigger deal later.

Whatever the motivation, the strategy is risky. The WTO's purpose is to free up trade on a non-discriminatory basis, not to make special deals for a few countries. Such deals are blunt anti-poverty weapons, because many of the world's poorest people do not live in the 32 member countries officially deemed “least developed”. At some point other poor countries may start demanding similar terms.

Rich countries may also have oversold what they intend to do. America has left itself plenty of room to exclude sensitive products such as textiles and sugar from its duty-free, quota-free pledge. Japan will also be able to exclude some things, such as rice or leather.

Pledges of aid for trade also sounded grand: an extra $10 billion from Japan; a doubling of America's annual commitment, to $2.7 billion, by 2010; a big rise from the EU, too. However, no one seems to know if this truly is new money or what it will be used for. This leaves plenty of room for disappointment—and therefore for obstruction from the poorest countries if a broader deal looks likely.

For the moment, an agreement still seems an awfully long way off. The gaps remain wide between the WTO's most important members—America, the EU and the big emerging economies, such as Brazil, India and China. America and the big developing countries regard Europe's proposed cuts in farm tariffs as hopelessly inadequate. Brazil, India and others refuse to discuss reducing their own industrial tariffs until there is more progress on agricultural trade. The EU, in turn, says that its farm-trade offer is substantial and that it will not budge further until emerging economies do more to open their markets for industrial goods and services.

To break this deadlock, more will be needed from all, but particularly the EU and the big emerging economies. As Mr Lamy told journalists in Hong Kong, “The EU will have to move. They all will have to move. They know that; you know that; I know that.” The trouble is that the political will to make the necessary compromises has long been missing. Despite six days of talk, there was scant sign of it this week. That is why, for all the blather about helping the poorest and putting the trade talks back on track, the meeting in Hong Kong was a disappointment.

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Italian banking

Year-end accounts

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Antonio Fazio, governor of the Bank of Italy, resigns. About time

Reuters

FIVE months ago, the rise of Gianpiero Fiorani looked unstoppable: the ambitious, well-connected banker seemed to have pulled off a stunning coup, the hostile takeover by Banca Popolare Italiana (BPI), of which he was chief executive, of the much larger Banca Antoniana Popolare Veneta (Antonveneta). Mr Fiorani's fall has been steep, culminating in his arrest on December 13th. Six days later it brought down a much grander figure: his friend and steadfast supporter in that bid, Antonio Fazio, governor of the Bank of Italy.

Mr Fazio's handling of the takeover had politicians on all sides calling for his resignation for months. The law, drawn up to safeguard the central bank's independence, made him all but unsackable and Mr Fazio had defied his critics. The government was preparing a rushed new law, in an effort to unseat him, when he quit. His successor, who the cabinet has agreed will have a renewable six-year term, must now restore both confidence in Italian banking and the reputation of what was once Italy's most respected public body.

Mr Fiorani's arrest and the news that Mr Fazio himself was being investigated for misusing privileged information about Antonveneta appear to have been the final straws. The warrant issued against Mr Fiorani by a Milanese judge claimed he had organised a criminal gang that had in effect enriched itself at the expense of BPI's depositors. The warrant refers scathingly to the central bank, which is responsible for banking supervision. By defending BPI it had, wrote the judge, betrayed savers.

When it bid for Antonveneta, BPI was challenging ABN Amro, a Dutch bank (and the eventual winner). Telephone taps in investigations of suspected market abuse and insider trading revealed that BPI had political support to keep its target in Italian hands. But, noted the judge, keeping banks Italian was in effect a pretext for protecting the flow of large and illicit profits.

The new governor's first test could be to rule on another controversial takeover fight, for Banca Nazionale del Lavoro (BNL). This also involves a foreign bidder. Spain's BBVA, which owns almost 15% of BNL and has been an important shareholder since BNL was privatised in 1998, made an unsuccessful bid in March. A group of property speculators who had bought large stakes in BNL sold to allow Unipol, an Italian insurer, to gain a controlling interest. BBVA's offer lapsed in July.

However, the battle for BNL is not over. Unipol's bid is subject to approval by three regulators. The insurance industry's watchdog has given its opinion, but only to the Bank of Italy. Neither the central bank nor the stockmarket regulator has yet given a nod. Attention is focused on the central bank, which was due to reply to Unipol's request for approval by December 25th, but the deadline has now slipped.

With magistrates probing BPI's operations and with some actors in the BPI-Antonveneta saga also tied up in the Unipol-BNL affair, the banking supervisors will have extra reason for caution. One reason for prudence is that Giovanni Consorte, Unipol's chairman, is reportedly under investigation—although the company says that neither it nor he has been notified of this; another that he is on trial for insider trading in Unipol bonds (which he denies).

In addition, the arrest warrant for Mr Fiorani states that BPI granted Mr Consorte and Unipol's chief executive unsecured loans of €4m each. These loans, made in December 2004, when BPI was secretly preparing its move on Antonveneta, were used to finance equity trades, perhaps involving derivatives. According to the judge, the Unipol executives each netted €1.7m from these deals and withdrew their profits by means of banker's drafts.

Had Mr Fazio stayed in office, the central bank would have been in an impossible position: whether he had approved Unipol's bid or denied it, his judgment could have been questioned. Bankers and investors elsewhere in Europe will hope that Italy will now be more welcoming to foreign takeovers. At least, under a new governor Italy's banking industry can make a fresh start.

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French banks

Battle of the pocket-books

Dec 20th 2005 | BRUSSELS AND PARIS
From The Economist print edition

The post office gets a new banking arm. It may get unwelcome competition too

FOR a decade France's big banks have been demanding the right to offer the Livret A, the country's most popular saving plan and the exclusive domain of La Poste, the state-owned post office, and Caisse d'Epargne, a mutual savings bank. The banks may at last be making progress. Even though on December 21st the European Commission is expected to approve, against their wishes, the launch on January 1st of a bank owned by La Poste, Neelie Kroes, the competition commissioner, will continue to consider whether the duopoly distorts the French banking market.

Jean-Paul Bailly, boss of La Poste, announced his plans for a bank, called La Banque Postale, in November 2004. Yet BNP Paribas, Société Générale, Crédit Agricole and Banque Fédérale des Banques Populaires waited until the French banking regulator approved the new venture on November 30th before complaining to the commission. They knew they had little chance of stopping the bank's launch, but thought they might open the Livret A.

The banks say that the 17,000 post offices will join a market that, with 26,000 bank branches, is already full. They also claim that La Poste will not charge its banking arm enough for its infrastructure and that the pensions of the new bank's 1,000 employees will be subsidised by the state. They also say they would charge the government only 0.8% commission for running the Livret A, against La Poste's 1.3% and Caisse d'Epargne's 1.1%.

The Livret A, which dates back to 1818, is a tax-free account held by three-quarters of French people and containing almost one-fifth of their savings. Caisse d'Epargne runs 24.5m accounts, with €67 billion ($80 billion); La Poste has 21.6m, with €47.5 billion. There is no minimum deposit; the maximum is €15,300. Savers get 2% interest and can pay in or take out money as they wish. Deposits are channelled to the Caisse de Dépôts et Consignations, a state-controlled bank, to finance social housing.

This is not the banks' only such campaign. At the end of the 1990s they began a similar assault on the Livret Bleu, a tax-favoured savings plan distributed only by Crédit Mutuel, a mutual bank. In 2002 the European Commission fined Crédit Mutuel €164m for charging the state excessive handling fees between 1991 and 1998, but in January 2005 the European Court of First Instance annulled the fine. The court found that the commission had done too little to justify its original decision. Instead of appealing, Ms Kroes decided to start a new investigation into the Livret Bleu.

Combined, La Poste, Caisse d'Epargne and Crédit Mutuel manage more than two-fifths of French savings deposits. There seems to be little reason to bar the banks from distribution of the most popular ways of putting money aside. La Poste says that they are only interested in cherry-picking clients with big accounts, not the average Livret A account, which holds a meagre €150. Naturally, La Banque Postale would much prefer to take on the other banks with its privileges intact.

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Economist.com FINANCE & ECONOMICS

Russia's stockmarket

The Yukos rally

Dec 20th 2005 | MOSCOW
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Why the Bear is so bullish

SOON, perhaps before the end of the year, the Russian government may do what it has been promising for longer than many investors care to remember: lift the assorted restrictions on the foreign ownership of, and trading in, shares in Gazprom, the country's state-controlled gas monopoly. Gazprom will become a big emerging-market share and a near must-have for many fund managers. The liberalisation should give a fillip to other Russian shares, too. Not that they need it. By December 19th the main market index, the dollar-denominated RTS, had risen by 80% since the start of the year, trouncing most others.

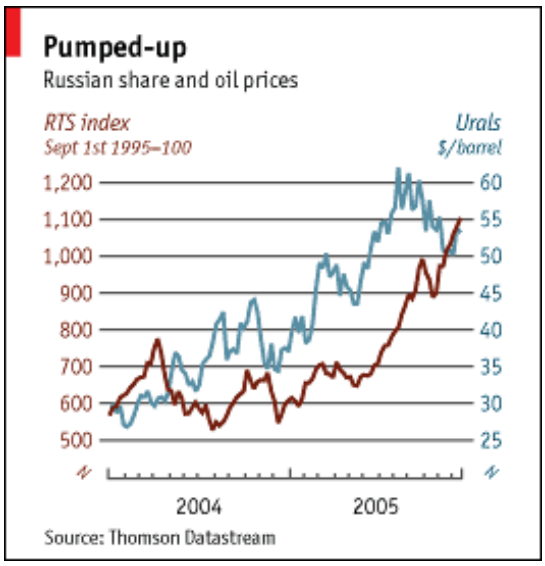
Which, on the face of it, is surprising given the bad headlines that have emanated from Moscow for much of 2005. A year ago a big chunk of Yukos, formerly Russia's main oil company, was forcibly renationalised; then Sibneft, another hitherto efficient oil firm, was bought by Gazprom, which is, well, less efficient. The Kremlin has tried to increase its influence in other industries, too, and has made vague, alarming noises about the role of foreign firms in Russia. There is also corruption on a grand scale. And yet the RTS has gone through the roof.

The charitable explain at least part of this by noting the sound macroeconomic management that the more egregious policies have obscured. Alexei Kudrin, the finance minister, said last week that the federal surplus for this year would be likely to top 7%. After dipping in the first half of the year, growth picked up in the third quarter, driven in part by retailing and construction. There is said to be much more Russian money going into Moscow-based funds than there was two years ago.

All true enough; but two other factors have mattered more. The first has been the amount of cash heading for emerging markets in general. The second is the oil price. Oil and gas shares make up around half the RTS (even though the index does not include Gazprom), and as oil prices have surged, the oil industry's shares have outstripped the rest.

The Kremlin's main contribution to the rally has probably been to do nothing as damaging as it did in 2004. The RTS was in a Yukos-induced slough for last year and the first half of this one, before investors decided that the worst was over, and the index began its precipitous ascent (see chart). It has spent the past six months making up for the previous 18.

The hope for 2006, says one Moscow analyst, is for a "boring bull market". Whether he gets one depends largely on the validity of the assumption of higher long-term oil prices that has supported this year's boom; the Russian market can weather brief oil-price dips, as it showed in November. Partly, it will also depend on whether the Kremlin can continue to avoid doing obnoxious things. The need to behave during Russia's chairmanship of the G8 may act as a restraint, although parliamentary and presidential elections due in 2007 and 2008 will probably encourage populism—fiscal and other. Fear of state predation is certainly still there: it is one reason for this year's spate of initial public offerings by Russian firms in London.



Another of those reasons is the difficulty foreign investors face in buying Russian shares. This is due to be addressed, which should help the planned partial flotation next year of Rosneft, a state-owned oil firm that swallowed the expropriated bit of Yukos (and may yet get the rest). With the Gazprom liberalisation, that may help persuade more investors that the Yukos affair was a mere blip. Just as Yukos and Sibneft did in the

1990s, Gazprom and Rosneft will be trying to look respectable to attract western money: the offer (declined) of a top job at Rosneft to Donald Evans, formerly America's commerce secretary, looks like a step in that direction.

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Economics focus

Wealth from worship

Dec 20th 2005
From The Economist print edition

An economist finds that going to church is more than its own reward

AT CHRISTMAS, many people do things they would never dream of the rest of the year, from giving presents to getting drunk. Some even go to church. Attendance soars, as millions of once-a-year worshippers fill the pews. In Britain, where most weeks fewer than one person in ten goes to church, attendance more than triples. Even in America, where two-fifths of the people say they go frequently, the share climbs in December.

Some of the occasional churchgoers must wonder whether they might benefit from turning up more often. If they did so, they could gain more than spiritual nourishment. Jonathan Gruber, an economist at the Massachusetts Institute of Technology, claims that regular religious participation leads to better education, higher income and a lower chance of divorce. His results* (based on data covering non-Hispanic white Americans of several Christian denominations, other faiths and none) imply that doubling church attendance raises someone's income by almost 10%.

The idea that religion can bring material advantages has a distinguished history. A century ago Max Weber argued that the Protestant work ethic lay behind Europe's prosperity. More recently Robert Barro, a professor at Harvard, has been examining the links between religion and economic growth (his work was reviewed here in November 2003). At the microeconomic level, several studies have concluded that religious participation is associated with lower rates of crime, drug use and so forth. Richard Freeman, another Harvard economist, found 20 years ago that churchgoing black youths were more likely to attend school and less likely to commit crimes or use drugs.

Until recently, however, there was little quantitative research on whether religion affects income directly and if so, by how much. A big obstacle is the difficulty of disentangling cause and effect. That frequent churchgoers have higher incomes than non-churchgoers does not prove that religion made them richer. It might be that richer people are likelier to go to church. Or unrelated traits, such as greater ambition or personal discipline, could lead people both to go to church and also to succeed in their work.

To distinguish cause from coincidence, Mr Gruber uses information on the ethnic mix of neighbourhoods and congregations. Sociologists have long argued that people are more likely to go to church if their neighbours share their faith. Thus Poles in Boston (which has lots of Italian and Irish Catholics) are more likely to attend mass than Poles in Minneapolis (which has more Scandinavian Protestants). Measuring the density of nationalities that share a religion in a particular city can therefore be a good predictor of church attendance.

But ethnic density is not wholly independent of income. Studies have found that people who live with lots of others of the same ethnic origin tend to be worse off than those who are not "ghettoised". So Mr Gruber excludes an individual's own group from the measures, and instead calculates the density of "co-religionists", the proportion of the population that shares your religion but not your race.

According to Mr Gruber's calculations, a 10% increase in the density of co-religionists leads to an 8.5% rise in churchgoing. Once he has controlled for other inter-city differences, Mr Gruber finds that a 10% increase in the density of co-religionists leads to a 0.9% rise in income. In other words, because there are lots of non-Polish Catholics in Boston and few in Minnesota, Poles in Boston both go to church more often and are materially better off relative to, say, Swedes in Boston than Poles in Minnesota relative to Swedes in Minnesota.

Mr Gruber finds little evidence that living near different ethnic groups of the same faith affects any other civic activity. Poles in Boston are no more likely to join secular organisations than Poles in Minnesota. Since general differences between cities are already controlled for, that leads him to conclude that it must be religious

attendance that is driving the differences in income.

Looking for a cause

Other economists, though they think Mr Gruber's approach is clever, are not sure that he has established a causal link between religious attendance and wealth. So how might churchgoing make you richer? Mr Gruber offers several possibilities. One plausible idea is that going to church yields "social capital", a web of relationships that fosters trust. Economists think such ties can be valuable, because they make business dealings smoother and transactions cheaper. Churchgoing may simply be an efficient way of creating them.

Another possibility is that a church's members enjoy mutual emotional and (maybe) financial insurance. That allows them to recover more quickly from setbacks, such as the loss of a job, than they would without the support of fellow parishioners. Or perhaps religion and wealth are linked through education. Mr Gruber's results suggest that higher church attendance leads to more years at school and less chance of dropping out of college. A vibrant church might also boost the number of religious schools, which in turn could raise academic achievement.

Finally, religious faith itself might be the channel through which churchgoers become richer. Perhaps, Mr Gruber muses, the faithful may be "less stressed out" about life's daily travails and thus better equipped for success. This may make religion more appealing to some of those who turn up only once a year. But given that Jesus warned his followers against storing up treasures on earth, you might think that this wasn't the motivation for going to church that he had in mind.

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* "Religious Market Structure, Religious Participation and Outcomes: Is Religion Good for You?", NBER Working Paper 11377, May 2005

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Buy a gift for someone.

Stem cells

Running for cover

Dec 20th 2005
From The Economist print edition

Public outcry over a possible scientific fraud

Get article background

KOREANS are sometimes accused of suffering from a "*bali, bali*" or "quick, quick" complex; of sacrificing quality and thoroughness to speed and a driving desire to achieve. In Hwang Woo-suk, heralded as the world's leading stem-cell researcher, this trait has resulted in, at best, sloppy science; at worst audacious fraud.

Dr Hwang, of Seoul National University, made headlines earlier this year when he published a paper in which he claimed to have derived lines of stem cells from cloned human embryos. Stem cells have not undergone the epigenetic modification that tells them to specialise (see article), and can thus turn into any cell type. Dr Hwang's paper, published by *Science* in June, seemed such an achievement because it was the first to show that, in many diseases, patients might in principle be treated using cells containing their own DNA. Such treatments would, the idea goes, avoid rejection by the patient's immune system since they would not be recognised as "foreign".

Rumours that the results were false have been circulating for weeks. A South Korean television station investigated the allegations, but the resulting programme was initially withheld from broadcast because of the strength of public support for Dr Hwang. Suspicions were fuelled still further by the appearance of anonymous blogs on a website frequented by young South Korean scientists. These questioned the authenticity of some of the pictures contained in the seminal paper—in particular, the DNA fingerprint analyses used to verify the results of the experiments. The DNA fingerprints from some of the cell lines appeared to match the patients' cells too perfectly and could therefore be duplicates, rather than having come from separate experiments.

Sauve qui peut

After learning of these concerns, the paper's second author, Gerald Schatten of the University of Pittsburgh, asked for his name to be removed from it. A couple of days later, on December 15th, another co-author, Roh Sung-il, claimed Dr Hwang had admitted falsifying data on nine of the 11 stem-cell lines that formed the basis of his findings. Despite being on the list of authors, Dr Roh, who is the head of the MizMedi Women's Hospital, an infertility clinic in Seoul, and who had collaborated with Dr Hwang in the past, said he was not aware of the paper

until after it had been published. He added that, because of concerns that someone might steal their scoop, it had been written by Dr Hwang and Dr Schatten only.

In a televised press conference on December 16th, Dr Hwang responded by denying the accusations vehemently. However, he did acknowledge fatal flaws in the paper and asked for it to be withdrawn, something *Science* will do if all 25 co-authors agree. He also offered his own interpretation of the too-perfect results: that the stem cells were somehow mismanaged, or possibly switched. He conceded that there were only eight cell lines when he offered the paper for review, but said his team created three more lines later.

The presence of the duplicated photos is more difficult to explain. Initially, Dr Hwang presented this as an administrative mistake. However, a junior researcher on the project, Kim Sun-jong, has said his boss ordered him to manipulate photos of two stem-cell lines and present them as 11 separate colonies.

The case has created a sensation in South Korea, where Dr Hwang had been celebrated as a national hero for his achievements in human and animal cloning. These achievements are now coming under scrutiny. Indeed, an earlier paper which announced that Dr Hwang had cloned human embryonic stem cells, published in *Science* in 2004, is already under attack. The same website that carried details of problems with the 2005 paper is now reporting that a photograph in the 2004 paper is identical to that of a human embryonic stem cell made by the MizMedi hospital and submitted to another journal.

Controversy is also brewing over the culpability of the government. At the centre of the storm is the presidential adviser for science and technology, Park Ky-young, a molecular biologist who was a co-author of Dr Hwang's paper in 2004. The South Korean government has put more than 26 billion won ($26m) into Dr Hwang's research, and is now being blamed for not keeping a closer eye on its protégé.

The *bali, bali* attitude has surfaced in South Korean science more than once in recent years. In November 2004 the International Atomic Energy Agency expressed serious concern that some of the country's scientists had conducted experiments to enrich tiny amounts of uranium. They did so without the knowledge and consent of anyone other than the head of the laboratory where the work was done. And, just last month, Dr Hwang admitted, after more than a year of denial, that he had violated international ethics guidelines by using eggs from two female scientists who worked in his laboratory.

Seoul National University and the University of Pittsburgh are now investigating Dr Hwang's work. He has said he will prove the authenticity of his findings by thawing five remaining frozen stem-cell lines, a procedure he estimates will take around ten days. The schedule could prove tight. Given the weight of the accusations, and despite the Korean temperament that favours quick results, now would be an ideal opportunity to practise patience.

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Buy a gift for someone.

The human epigenome

Life story, the sequel

Dec 20th 2005
From The Economist print edition

An international endeavour to decipher the "grammar" of heredity

ONE intriguing finding of genome research is that the genetic differences between species are far smaller than had originally been supposed. Humans share almost all of their genes with chimpanzees, 88% of them with rodents and 60% with chickens. What makes people humanlike, and chickens poultrylike, is now thought to lie as much in the way their genes are expressed as in the actual composition of those genes. In particular, genes can be deactivated more or less permanently by tagging either the genes themselves or the histone proteins around which they are coiled with a range of chemical suppressors.

The study of this type of regulation is called epigenetics. When a cell's genes replicate as it divides, the pattern of suppressors—its epigenome—is often replicated with them. It is thus that the daughters of a liver cell, say, inherit the property of liverness and so do not turn into kidney cells or blood corpuscles. And, in a more sinister twist, it is often the epigenome of a cancer cell that makes its daughters cancerous, too. A cell's epigenome is therefore as important to it as its genome. It is, if you like, the grammar of heredity that gives meaning to the genome's actual words.

Genetic epigrams

Despite this importance, epigenetics has languished in the shadow of its genomic big brother. But a group of epigeneticists plans to change that. Just as geneticists had the Human Genome Project to propel their subject to glory, so these epigeneticists are proposing a Human Epigenome Project.

The group, some 40 strong and led by Peter Jones of the University of Southern California, Los Angeles, and Robert Martienssen of Cold Spring Harbor Laboratory, in New York state, has floated its idea in the most recent issue of *Cancer Research*. The researchers think the project would illuminate some of the most profound questions in biology. That is because the epigenome mediates environmental influences on gene expression, and so lies at the interface between nature and nurture.

This could explain how stress and toxic chemicals affect susceptibility to diseases. It could also explain why "identical" twins are not always actually identical. A recent study published in the *Proceedings of the National Academy of Sciences* shows that such twins are epigenetically indistinguishable when young, but that as they grow older they develop remarkable differences in their patterns of epigenetic modification.

Indeed, epigenetics is crucial for processes such as development, ageing, cancer formation, mental health and infertility. In the case of cancer, in particular, its study is already playing a valuable part in developing diagnostic, prognostic and therapeutic tools. Researchers now recognise that cancer has an epigenetic component that may contribute as much as normal genetic mutation does. For example, in the case of one particular gene that is thought to act as a tumour suppressor, and whose failure is implicated in 25 types of brain tumour, epigenetic mechanisms cause the failure far more often than conventional mutations do.

Epigenetic markers also serve to predict clinical outcomes. In breast tumours, for example, researchers have identified a pattern of epigenetic modification within the oestrogen-receptor gene that correlates with a patient's chances of survival in response to tamoxifen treatment.

On top of this, while genetic mutations are hard to correct, as attested by the difficulty people have had getting gene therapy to work, epigenetic changes can be reversed reasonably easily, by adding or removing the chemical tags involved. Such epigenetic therapy is now at the forefront of cancer treatment. For example, a drug called Vidaza, which is made by Pharmion Corporation of Boulder, Colorado, and which acts on an important class of tags called methyl groups, was approved last year by America's Food and Drug Administration for the treatment of so-

called myelodysplastic syndromes, also known as “pre-leukaemia”. In theory, this drug should be active in all cells. In practice, though, it seems to be active only in cancerous cells—suggesting that the theory needs rewriting.

Such rewriting is exactly the sort of task that a Human Epigenome Project could help with. Indeed, it now seems a matter of how, rather than whether, such a project will happen. Several small-scale projects, based in both academic and industrial settings, are already under way. The most prominent among them is the European Epigenome Project, headquartered at the Sanger Institute in Cambridge, England. It is funded by the Wellcome Trust, the world's second-largest medical charity after the Gates Foundation, and by the European Union, and it expects to analyse 10% of the human epigenome by the autumn of 2006.

That is a good start, but not good enough for Dr Jones. The goal of the Human Epigenome Project that he and Dr Martienssen envisage would be to identify all of the chemical modifications of DNA and histone proteins that occur naturally. But epigenetic tags differ among tissues and between individuals. They also change with age, and as a result of diseases and interaction with the environment. By comparison, sequencing the human genome, which differs only slightly between individuals, was a doddle.

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Deloitte.

Intellectual property

Bayhing for blood or Doling out cash?

Dec 20th 2005
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A landmark law has allowed American universities to profit by patenting their innovations. But the costs are adding up

EVERYONE agrees the reform had the noblest of intentions; yet some now regard it as an assault on the values of academia. A quarter of a century ago this month, America passed the Bayh-Dole act, named after its sponsors, Birch Bayh and Bob Dole, both then members of America's Senate. It was billed as a minor legal tweak—encouraging universities to patent and license the results of federally funded research—but it has had huge effects, both good and ill. It is credited by some with helping pull America out of its economic doldrums by pushing technologies quickly into the hands of industry. In so doing, others complain, it has blurred the line between education and commerce.

The act enables universities to patent any innovation that springs from government-funded research, license it and share the spoils with the inventor. The idea was not to enrich universities, but to give them a reason to propagate the fruits of research which had been mouldering unexploited. And it has worked. In the past 25 years, more than 4,500 firms have been spun out from non-profit research institutes, based on patents generated as a consequence of this law.

Scores of medical advances and technical innovations have resulted, including MRI body scanning, the vaccine for hepatitis B, the atomic-force microscope and even the technique behind Google's search engine. In 2004 alone, American universities and institutes raked in $1.39 billion in licensing revenue, and applied for more than 10,000 new patents. Impressed with this apparent success, other countries, including Japan and Germany, have adopted similar policies. Indeed, just this month, dons at the University of Cambridge, in England, voted to change their institution's handling of intellectual property so that it resembles the way Messrs Bayh and Dole have organised things for America. In 2002 *The Economist* trumpeted the law as "possibly the most inspired piece of legislation to be enacted in America over the past half-century" (see article).

A law of unintended consequences

Yet the yelps from critics have grown louder over the years. Many scientists, economists and lawyers believe the act distorts the mission of universities, diverting them from the pursuit of basic knowledge, which is freely disseminated, to a focused search for results that have practical and industrial purposes. Whether that is a bad thing is a matter of debate. What is not in dispute is that it makes American academic institutions behave more like businesses than neutral arbiters of truth. For example, a study published in 2003 by Jerry and Marie Thursby, of Emory University and the Georgia Institute of Technology respectively, showed that more than a quarter of the licences issued by universities and research institutes include clauses allowing the business partner in the arrangement to delete information from research papers. Almost half allow them to insist on publication being delayed.

Moreover, there is ample evidence that scientific research is being delayed, deterred or abandoned due to the presence of patents and proprietary technologies. Researchers (and particularly their minders in university patent-licensing offices) are increasingly reluctant to share materials and knowledge with others unless such sharing is accompanied by legal agreements about "reach-through" royalties on potential findings and the right to restrict publication of results. A study released in October by the American Association for the Advancement of Science noted that 35% of academic biotechnology researchers experience difficulties getting hold of patented technologies that they need for their work, even though non-commercial research is supposed to be exempt from the normal restrictions of patents. The question is just how "non-commercial" such research really is. Lawsuits between universities and researchers over patents and royalties are now common. Indeed, though he was eventually exonerated, a student from the University of South Florida ended up doing a stint on a prison chain gang for

“stealing” the intellectual property he created.

Even industry is starting to complain about a gold-digger mentality among academic administrators. The most notorious example is Columbia University, which tested the boundaries of the law by seeking to re-patent a technique whose patent had already expired. (It was for a technology called co-transformation that is used to place external DNA into cells, and is important in making certain drugs.) Columbia eventually backed down, but only in the face of both public criticism and a series of writs from biotechnology companies. Another case ensnared the University of Utah, which licensed its patent on a gene underlying hereditary breast cancer exclusively to one company, Myriad Genetics. That gave Myriad a monopoly on diagnostic testing for the disease, which was controversial enough. But then the firm started suing universities that were using its technology in follow-up research, bringing the non-commercial research exemption still further into question.

Myriad reasons why

The example of Myriad, in particular, illuminates the problem. It is the firm's exclusive licence that gives it its power. But the spirit of the act—to encourage dissemination—argues against such exclusivity. Instead, the patent holder should simply publish terms and grant non-exclusive licences to everyone willing to accept them, unless it can justify to the grant-giver why exclusivity is necessary.

Indeed, a backlash has already started. Last year, America's National Institutes of Health, which now disburses almost $30 billion of research money a year, issued guidelines recommending that “whenever possible, non-exclusive licensing should be pursued”. Last month this was endorsed by America's National Research Council, an organisation charged with advising the government on research policy.

If that were not enough, the universities' non-commercial research exemption is also in trouble. In 2002, an appeals court ruled in the case of *Madey v Duke University* that universities are no different from businesses in the sense that they compete with each other for grants, faculty and students, and they make money by licensing and asserting their patents against others. They cannot, therefore, expect the exemption to apply automatically. This judgment sent shockwaves throughout the academic world, but it should not have done. It merely confirms an ancient proverb: as ye sow, so shall ye reap.

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Discovering the truth about Santa Claus

The travellers' tale

Dec 20th 2005 | BARI AND BETHLEHEM
From The Economist print edition

Corbis

Most people know very little about St Nicholas, even after 1,500 years

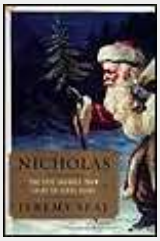
IN 1892, Crown Prince Nicholas of Russia travelled to Bari, in south-eastern Italy, to visit the basement of a medieval basilica. There he prayed over the remains of his saintly namesake, a Christian bishop who had ruled, 15 centuries earlier, over part of present-day Turkey. The crypt's marble floor, a gift from the royal pilgrim, is one legacy of that visit.

The future tsar made other acts of homage. A year earlier, he had gone to Vladivostok to bless the building of a trans-Siberian railway by installing an image of St Nicholas at its Pacific extreme. A saint whose prayers had long protected travellers by water—first the merchants of the east Mediterranean, and then the boatmen who carried his name up-river to the Slavic heartland—would now be asked to watch over those who journeyed by train.

The power of St Nicholas to stimulate unusual journeys seems undiminished. On December 19th, his feast-day in the old Orthodox calendar, the crypt of the Bari basilica was thick with incense and resounding with Slavonic chant. Boosting the winter tourist trade of this shabby, rain-swept Italian port came Russian visitors of every description, jostling, bargaining and chanting. There were nuns from Yekaterinburg, the city where Tsar Nicholas and his family (later recognised as "passion-bearers", a rather special category of saint) were slain in 1918. Seminarians, barely old enough to shave but already endowed with terrifying bass voices, came from deep in central Russia. There were London Russians and Dublin Russians. There were two bishops and half a dozen priests; all of them drawn to Italy's heel by the man whom Russians call *Nikolai Ugodnik*, Nicholas the Helper: a saint so beloved that images of Christ, Mary and Nicholas (often sold as threesomes) are a recurrent feature of Russian homes and cars, even among the non-devout.

In a speech in Bari in May, Pope Benedict called for a rapprochement between the Catholics and the Orthodox; but observing the surging confidence of this week's Russian visitors, it seemed unclear who—in any such transaction—

Nicholas: The Epic Journey from Saint to Santa Claus
By Jeremy Seal



Bloomsbury; 236 pages; $24.95.
Published in Britain as "Santa: A Life". Picador; £14.99

Buy it at
Amazon.com
Amazon.co.uk

might take over whom.

New Vision

In Bethlehem, Christians have their own claim to Nicholas as a local man—"our great-great-grandfather" as one Palestinian priest puts it—on the strength of a cave where the young Nicholas is said to have rested during his own pilgrimage to the birthplace of Jesus Christ. A church built over the cave is the rallying-point, every December 19th, for an exuberant parade by scouts, as well as prayers for the neighbourhood's protection. The church, along with many homes, bears the scars of the recent fighting between Palestinians and the Israeli army. There are many townspeople who believe things would have been worse without the intercession of their favourite saint, who has, they believe, a soft spot for the place where he first heard the call to become a bishop in his native Asia Minor.

It is, of course, a long way from the olive groves of Bethlehem to Vladivostok *(*whence the Nicholas tradition migrated to Japan and, thanks to a missionary-bishop who bore the saint's name, gave rise to a flourishing Japanese Orthodox church). An even greater distance divides the shadowy father of the early Christian church from the homes and department stores of America and northern Europe, where Santa now occupies centre-stage in the Christmas narrative, edging out the Nativity.

This metamorphosis provides the theme for Jeremy Seal's jaunty, readable travelogue-cum-biography. He juxtaposes scenes from his home in England—where his daughters, aged two and six, have a keen interest in anyone who brings them presents—with some enjoyable accounts of "Nicholas" country. This includes the saint's original home, a ruined basilica in Turkey where Christian services are occasionally permitted; and of course Bari, where he observes the summer-time festival commemorating the arrival of the saint's relics in 1087.

Mr Seal's purpose is to trace the holy man's transformation—from eastern Christian saint, scudding over the Adriatic (as much loved in Montenegro and Albania as he is on the Italian side)—to an icon, in the modern sense, of commercialism and kitsch. Mr Seal takes his elder daughter to visit a "shop Father Christmas" at an exhibition centre in Birmingham and she pronounces that "it wasn't the real Santa." That becomes a cue for a journey to Turkey where—in the absence of any other physical relics—visitors on the Santa trail are eagerly offered soil from the ruined basilica.

The book is an attractive entry-point to some aspects of early medieval history for those with no specialist interest in the subject. It also raises—without providing answers—some quite serious questions about religious history and geography.

Holiness—any person, story, physical feature or shrine, to which holiness is ascribed—always inspires travel. Either people go to the site of holiness, or else the holiness is somehow disseminated over great distances. And as it migrates, holiness metamorphoses in odd ways, absorbing the concerns of every place it reaches.

Sometimes ideas, or forms of worship, are disseminated; sometimes architectural styles, such as the replicas of Christ's tomb that were built all over Europe. But in early medieval times, the most tangible form of dissemination was the export of relics: the remains of individuals whose bodies had glowed with divine grace during their lifetimes and retained part of that grace after death. The trade in relics became a vast international marketplace, recognisable to any *Economist* reader and easy to lampoon. But at its heart was an elaborate doctrine which believed that the whole human person—body as well as spirit—could be saved. That, in turn, rested on the other event that is commemorated in Bethlehem in December: only because God had taken human flesh was it possible for other human beings to seek the redemption of their bodies and souls alike.

It is not necessary to believe this teaching to appreciate its sophistication. Glenn Bowman, a social anthropologist at Britain's University of Kent, has made some insightful observations about the psychology of pilgrimage, both

modern and medieval, from a strictly secular viewpoint. High theology has no place in Mr Seal's jolly narrative; to that extent his Nicholas is closer to the Santa-lite of department stores than to the protector who is remembered by rough-tongued Greek deckhands as they battle Aegean squalls—or to the mysterious figure who can still coax nervous Russian nuns out of the Ural forests and bring them down to a crypt thousands of miles away.

Nicholas: The Epic Journey from Saint to Santa Claus.
By Jeremy Seal.
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The politics of Christmas

Bah, humbug

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AS CHRISTMAS nears, American children begin to worry about Grinches. What if Dr Seuss's scary anti-hero, the scourge of Whoville with a "heart two sizes too small", were to visit their home town? What if he were to slide down the chimney and steal their presents? It is a reasonable fear.

Which is more than can be said for John Gibson's argument that secular liberals are plotting to steal Christmas. His evidence is anecdotal. In Georgia, a school board received a letter from the American Civil Liberties Union threatening a lawsuit if it included the word "Christmas" on a school calendar. In Mustang, Oklahoma, the superintendent of schools, fearing a lawsuit, ordered a nativity scene to be cut from a school pageant, while references to Kwanzaa and Hanukkah remained.

And so on. Most of Mr Gibson's examples of Grinchery are drawn from schools. This is because the constitution's first amendment ("Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof") has been interpreted in recent decades to mean "no religious displays on government property".

Many Americans think this an absurd misreading of the constitution. An "establishment of religion" means something like the Church of England, they grumble. And doesn't banning school prayer anyway violate the clause about not "prohibiting the free exercise thereof"? Maybe so, but the Supreme Court disagrees, so many school boards play safe by barring the slightest whiff of faith.

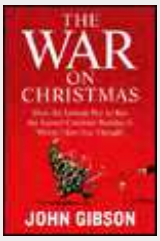
This can be taken to preposterous extremes. Officials in Plano, Texas, for example, banned Christmassy colours from a school's winter party. Cupcakes with white icing were deemed constitutional, but not red or green, Mr Gibson reports. A school bureaucrat in Maplewood, New Jersey forbade even instrumental versions of Christmas carols. All pretty ghastly, but does it really add up to "a war on Christianity", as Mr Gibson claims?

Given that there are more than 13,000 school districts in America, all of which make their own rules, it is hardly surprising that some make silly ones. And though some Christians may wince at the words "Happy Holidays", it doesn't quite add up to religious persecution. (Joseph Farah, an evangelical journalist, offers a useful anger management tip. When he received a Happy Holidays card from a Godless heathen called George Bush this year, he simply threw it out.)

Mr Gibson is an anchor for Fox News, which has chosen his theme as its outrage-of-the-month. In mock sympathy, Stephen Colbert, the star of a satirical news show on Comedy Central, has launched a "Campaign against Humbuggery" and called for a boycott of parking meters that lack tinsel.

"How the Republicans Stole Christmas" is better researched than "The War on Christmas", but equally shrill. Bill Press asks a useful question: "How did Republicans so successfully hijack religion?" Part of the problem, he says, is that Democratic politicians are uncomfortable talking about God. John Kerry, when asked about his faith, "looked

The War on Christmas: How the Liberal Plot to Ban the Sacred Christian Holiday is Worse than You Thought
By John Gibson



Sentinel; 186 pages; $24.95

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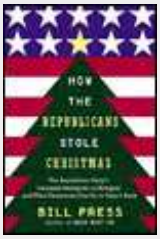
How the Republicans Stole Christmas: The Republican Party's Declared Monopoly on Religion and What Democrats Can Do to Take it Back
By Bill Press



Doubleday; 276 pages; $23.95

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like he'd just been asked how often he masturbated”.

Mr Press denounces Republicans for claiming, without evidence, that God is on their side. He then makes practically the same claim: “I'm not saying God is a liberal Democrat, but He sure as hell is no conservative Republican.” How does he know? Well, the gospels urge us to succour the poor. True enough, but both parties embrace this aim; they just differ on whether government programmes are an effective means to achieve it.

This, in a nutshell, is the essence of the Democrats' God problem. The religious right's message is simple because banning things is simple: if you want to stop abortion and gay marriage, vote Republican. The religious left's message is muddier, because no one has the faintest idea how Jesus would set about fixing the inner cities.

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Modern warfare

Model major-general

Dec 20th 2005
From The Economist print edition

THE emphasis on making war has shifted, for most western nations, from "organising our forces to defend our territory" to "using them to secure our people and our way of life". General Sir Rupert Smith, the British officer who commanded the UN forces in Bosnia a decade ago, the British armoured division in the first Gulf war and, later, all the troops in Northern Ireland, has a long and varied experience of the new warfare. His first book, "The Utility of Force", ought to be read, marked and inwardly digested by anyone responsible for committing armed forces to military operations.

The cold war—not a war at all, but a political and ideological confrontation negotiated by politicians and diplomats who were backed up by the appearance of force—ended with the collapse of communism rather than outright military victory. The resulting shift in power made it far more difficult to judge, with any degree of certainty, how big and what shape western armed forces should be in the future.

Take Britain, for example. Under the terms of the Brussels treaty, Britain had to defend 65 kilometres of inner German border. To achieve that, it needed 55,000 troops in Germany, all of them equipped with weapons that were designed to confront Soviet conventional forces. For political, strategic and tactical reasons, the British army also needed nuclear weapons. Nowadays, instead, forces are required to be manned and equipped to conduct what the author calls the almost continuous "wars amongst the people"—and without any clearly defined battlefields.

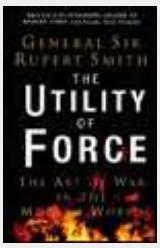
General Smith believes that the old style of warfare ended with the flash of the atomic bomb above Hiroshima, though the advent of the cold war meant that the West did not appreciate this at the time. While the principal protagonists, America and the Soviet Union, developed the technology they hoped would give them tactical as well as strategic advantage, around the world conflict was taking a new turn. Revolutionary movements and groups of terrorists took to hiding within the civilian population, making traditional military operations difficult, if not impossible, without causing large numbers of civilian casualties. Intelligence-gathering began to assume far greater importance than before. Interestingly, General Smith suggests that America is the country that will find it hardest to change because of the long-held view that it was technical and industrial superiority, above all, that enabled the North to triumph in the civil war.

Analysing the adjustment that western forces need to make is the most interesting part of this book. The author has trawled every conflict since the second world war for examples that support his argument, but he also draws from his own experiences. When western nations began to cut their armed forces after the cold war—the British by as much as a third—it was not entirely clear how industrial warfare would evolve. The result is that western forces today are equipped largely with an amalgam of technology designed to suit the old purpose, but which is not best suited to a "war amongst the people". Practically, however, Britain and other countries will have to continue to use this technology until it becomes obsolete; they cannot afford to do otherwise.

Would the British government have been so quick to join the invasion of Iraq if the lessons General Smith so logically sets out in his book had already been learnt and remembered? Greater attention might then have been paid to analysing how to achieve the "desired political outcome...whether military force can and should be used, and, if so, to what degree and what purpose". It's still not too late.

The Utility of Force: The Art of War in the Modern World.
By General Sir Rupert Smith.

The Utility of Force: The Art of War in the Modern World
By General Sir Rupert Smith



Penguin/Allen Lane; 428 pages; £25

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Penguin/Allen Lane; 428 pages; £25

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New cinema

The ethics of assassination

Dec 20th 2005
From The Economist print edition

"Munich" is a meditation on vengeance. Pity about the facts

Suspense and disbelief

THE plastique is in the telephone; the target is holding the receiver; the explosives expert is ready to trigger the bomb. Suddenly the head assassin realises that the target's little girl has gone back into the apartment for something she forgot.

This is one of several masterful suspense sequences in Steven Spielberg's new film, "Munich". The story of how 11 Israeli athletes were killed during the Olympic Games in Munich in September 1972 has been told many times, both on screen and in print. This new version is based on George Jonas's 1984 book about the Israeli anti-terrorist squad that was charged with killing the organisers of the "Black September" massacre.

Avner Kauffman (Eric Bana), a young Mossad agent whose wife is expecting a baby, is told by his boss (played by Geoffrey Rush) that he is to lead the five-man squad that will avenge those deaths. Chosen because he is an ordinary man who loves his country, Avner unquestioningly accepts and meets his team, deftly played by Daniel Craig, Ciaran Hinds, Mathieu Kassovitz and Hanns Zischler. One scene shows the Israeli team unexpectedly sharing a safe house with an undercover Palestinian group that accepts them as fellow radicals. Their clandestine war suddenly becomes a battle of wills between an Arab and an Israeli over what music to play; a peacemaker satisfies both sides by putting on Al Green's "Let's Stay Together". By the end of the film, though, Avner's career and his belief in himself are destroyed. Just before he walks away from his former boss, with the World Trade Centre towers visible in the background, he says: "There is no peace at the end of this."

Even before it opened in America on December 23rd, the film had started a fight. The immediate cause was its humanist commentary; too soft for some and too partisan for others.

Narrative licence is at least as big a problem. The target of the telephone bomb, for example, is a middle-aged professor who pleads the Palestinian cause with passionate conviction. To prove that Avner would risk his mission rather than harm an innocent bystander, the script by playwright Tony Kushner and Eric Roth adds the detail of the little girl returning to the apartment. But it omits the fact, mentioned in Mr Jonas's book, that her father may actually have been waiting for a phone-call from his mistress. In short, although the audience is told that Avner's targets planned the Munich massacre, you never see them do anything unsympathetic. Veracity might have been better served if one of them at least had been shown kicking a dog before the white phosphorus bombs planted under his mattress went off.

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Russian theatre

Bringing home the revolution

Dec 20th 2005 | MOSCOW
From The Economist print edition

Herzen and Bakunin return to Russia

SIR TOM STOPPARD admits to a feeling of "enormous presumption" at the transfer to Moscow of "The Coast of Utopia", his trilogy about 19th-century Russian intellectuals. But perhaps only a foreign writer could have resurrected its heroes so compassionately: some, such as Alexander Herzen, suffered death-by-canonisation during the Soviet era and are quite unloved in their homeland. If in London, where the plays premiered in 2002, overcoming the characters' obscurity was a challenge, in Moscow the issue will be prejudice.

The obvious Russian home for the plays, translated by Arkady Ostrovsky, a polymath writer at the *Financial Times*, and his brother Sergei, is the Moscow Art Theatre. There were three directors who wanted to produce it there, Sir Tom says, and three whom the Art Theatre wanted to do it; unfortunately, "they weren't the same three." Instead, the plays will now appear at the National Youth Theatre, a fitting home for a cast of censored, exiled radicals. The theatre was closed for a while by Stalin. Czech-born Sir Tom was involved in anti-censorship and pro-dissident campaigns in Soviet times.

At nine hours and with an army of roles, "The Coast of Utopia" is demanding for any theatre. In London, the actors rehearsed for 12 weeks, and then played the three parts continuously, sometimes all on the same day. In Russia, the trilogy will rehearse for a year, open together and then, as is customary, enter the repertoire and be staged sporadically. It will be expensive ("there will be money," promised the man from the federal culture agency at the project's launch this month). And, quite apart from the post-communist associations of Herzen and the rest, these days farce sells much better in Moscow than history.

Sir Tom, hitherto better known here for Joseph Brodsky's translation of "Rosencrantz and Guildenstern are Dead", bristles at the idea that his is "political" theatre. His characters quested for an ideal society, but they also "wept and laughed and ate dinner and made love and quarrelled". Alexei Borodin, the Moscow director, compares the trilogy's interplay of lives and ideas to the work of Chekhov and Turgenev. The giant ginger cat, Sir Tom's ironic observer of history, will appear in Moscow too, Mr Borodin says, although the image perplexed some London theatregoers.

Sir Tom also refuses to offer his work as a commentary on contemporary Russia: "One must be careful about becoming a completely spurious expert about any place that has an airport." But many of his themes are alive in the Putin era: free speech; gradualism versus revolution; the old tensions between Slavophiles and westernisers, and between the exiles and those who stay put (even if today the exiles are oligarchs rather than ideologues).

For all Russia's brashness, Sir Tom is convinced that Russians are his ideal audience. True, Moscow sometimes seems to be all about money, Mercedes and gangsters. But "receptiveness to ideas" is "as much a part of Russia as the geography," he says. And if you look closely, he is right: the Russian intelligentsia is still alive, reading poetry to each other in the grounds of monasteries, queuing for concert tickets at the Conservatory, and, probably, for "The Coast of Utopia" in early 2007.

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Literary criticism

Subliminal thinking

Dec 20th 2005
From The Economist print edition

TOM PAULIN, a British poet and literary critic, is a subtle scrutineer of language. In this collection of essays, he gives an account of some of the greatest literary works in English, including Shakespeare's sonnets, Daniel Defoe's "Robinson Crusoe" and James Joyce's "Ulysses".

What interests Mr Paulin most is how to read and understand a literary text. Is it an autonomous work of art in its own right, something of beauty to be understood on its own terms? Or is it forever subject to the undertow of social and historical forces? For Mr Paulin, history and aesthetics always go hand in hand.

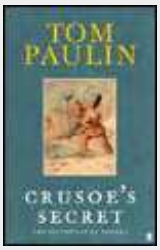
Critics spend too much time analysing the imagery of poetry when they should concentrate on the tactile and sonic qualities of language, Mr Paulin believes. Sound wills meaning into being. Words adhere to each other acoustically. They make patterns of sound, and the meaning that such patterns throw up can be quite different from the surface meaning. In Shakespeare's sonnets, an awareness of how clusters of sounds echo or play off against each other can help to bring the poems sensuously alive. Writers also echo other writers. William Blake was alive to the sounds of the poetry of John Milton, who died 83 years before he was born; you can hear it in his poetry.

Mr Paulin's ingenuity, though, seems occasionally to overwhelm his common sense. He believes fervently that "Tintern Abbey", a famous poem of meditative mood by William Wordsworth, has a clear political undertone. Wordsworth wrote "Tintern" shortly after the French revolution, on July 13th 1798, and Mr Paulin believes he was really reflecting upon his republican past. "Subliminally, there is a political texture to 'plots' in 'these plots of cottage-ground'," he writes, quoting from the poem, "and it's hard not to ghost 'corpses' in 'copses', as 'unripe' in the previous line carries the r to touch 'copses'."

The language that Mr Paulin celebrates with most gusto—"fresh-peeled, sappy" and of a "present-moment directness"—has its roots in common speech. Occasionally feisty, acute and energetic, Mr Paulin's readings breathe new life into some of the classics. By showing how ideas can lie just beneath the surface of others that may be thought quite familiar, he makes particular words catch the reader's eye in an altogether novel way. It's a gift.

Crusoe's Secret: The Aesthetics of Dissent.
By Tom Paulin.
Faber and Faber; 400 pages; £20

Crusoe's Secret: The Aesthetics of Dissent
By Tom Paulin



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Obituary

Devan Nair

Dec 20th 2005
From The Economist print edition

AFP

C.V. Devan Nair, a builder of Singapore, died on December 6th, aged 82

AS PRISONS go, the one in which Devan Nair found himself in 1951, on St John's Island off Singapore, was not a bad place. The island itself had white beaches and coral reefs, not that he saw much of them. Inside the walls was a well-stocked library. Prisoners were allowed radio sets, though they were tuned only to Radio Singapore, and contact was easily kept, through corruptible warders, with subversive elements in the outside world. They were also allowed lawyers. One was Lee Kuan Yew, who gradually came to take over both Mr Nair and Singapore.

Mr Nair was in prison for making speeches against colonialism and in favour of communist revolution. Singapore, together with the whole Malay peninsula, was then under British rule. Mr Nair, though he looked a mild sort—a bespectacled English teacher, specialising in Shakespeare—was an eloquent member of the Anti-British League. Though his own prison was relaxed enough, he knew well that convicts in other jails were made to kneel and bow their heads when a British officer entered the room. The thought of this enraged him well into old age.

Once out of prison, he began to attend the political forums that grew, in 1954, into Mr Lee's People's Action Party (PAP). The British grip was weakening and would soon be gone, letting Singapore breathe on its own. His friendship with Mr Lee grew slowly, however, because there was a difficulty. Mr Lee loathed communism in any shape, and Mr Nair was deep in it. As the son of a rubber-plantation clerk, his heart was with the workers and with the militant tactics of the unions of the day. He stood on picket lines and slept on the gravel to agitate for better pay. Mr Lee needed that energy, as well as the votes of the working man, to build his party. But his new Singapore was to be a neat, obedient place, with no taint of Marxism or Maoism seeping in from China, and certainly no goings-on like Mr Nair's.

In 1959, during a second spell in prison for involvement in a bus workers' strike, Mr Nair was co-opted. At the urging of Mr Lee, now prime minister, he wrote two statements promising to abjure communism, signed them, and encouraged his fellow detainees to do the same. That submission, magically, got them out of jail. His colleagues later broke their promise, but Mr Nair did not. Months of conversations with Mr Lee had had their effect. It was, he confessed later, "hero-worship". Mr Lee was now Singapore's "captain" and he was his loyal lieutenant.

As the PAP went from strength to strength after Singapore's independence in 1965, Mr Nair's unions marched with it shoulder to shoulder. They no longer went on strike, but settled their claims in courts of arbitration. Peaceful co-operatives were formed, offering workers everything from life insurance to school textbooks. With the unions peaceful, business boomed. The little city-state was turned from a run-down fishing port into a glittering surge of skyscrapers, with its workers earning wages close to those enjoyed in Japan.

The silliest job in the world

For years, few in this ideal metropolis—where chewing gum was banned, spitting prohibited and loo-flushing monitored—defended the rule of Mr Lee more ardently than Mr Nair. Torture in prisons? Absurd. Censorship of the press? Hardly, and in any case necessary to keep communist influences out. In 1965 Mr Nair started his own Democratic Action Party, but Mr Lee summoned him back to the PAP. He came. Mr Lee invited him to be secretary-general of the new trades union congress, the NTUC. He could only accept. In 1981, Mr Lee moved in Parliament that he should be the country's president.

Mr Nair agreed. It was a disaster, "the silliest job in the world", all cutting ribbons and simpering to visiting royalty. He began to disagree publicly with Mr Lee on points of social order. Then came an unfortunate incident at a conference in Sarawak. A drunken Mr Nair was seen fondling the naked breasts of Dayak dancers and sitting one on his lap. Lipstick marks were found on wine glasses at his chalet. In a letter to Mr Lee, he admitted that he was an alcoholic. Later he denied it, claiming he had been drugged and remembered nothing. Mr Lee mused sadly that "there are two Devan Nairs", and this one he did not know.

Disgraced, Mr Nair stepped down in 1985. Three years later he left the country, settling at last in Ontario. In the clear Canadian light, he saw differently. It seemed to him now that sleep deprivation and 16-hour interrogations by agents enforcing Singapore's Internal Security Act might indeed add up to torture. He was convinced that Mr Lee's technique of suing his opponents into bankruptcy or oblivion was an abrogation of political rights. As for the man himself, he now thought him "an increasingly self-righteous know-all", surrounded by "department store dummies". Mr Lee sued, but withdrew because Mr Nair was suffering from dementia.

Mr Nair claimed that one remark, in 1981, disgusted him above all others. J. B. Jeyaretnam, the leader of the Workers' Party, had won a by-election; by Mr Nair's account, Mr Lee promised to crush him, crying "I will make him crawl on his bended knees and beg for mercy." That image had haunted Mr Nair before, as the worst expression of arrogant colonialism.

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Deloitte.

Overview

Dec 20th 2005
From The Economist print edition

America's current-account deficit narrowed in the third quarter to $195.8 billion, or 6.2% of GDP. This was due largely to the big insurance payments it received from overseas after its summer hurricanes. The deficit will probably widen again in the fourth quarter: America's trade gap in goods and services reached $68.9 billion, a record, in October. But it continues to finance this shortfall with ease, attracting a net capital inflow of $106.8 billion that month.

American consumer prices fell by 0.6% in November, leaving prices 3.5% higher than a year ago. Industrial production expanded by 0.7% in November; American industry is now running at 80.2% of full capacity.

Business conditions in **Japan** are improving, according to the central bank's quarterly Tankan survey. Large manufacturers were in their best spirits since December of last year; non-manufacturing firms, their best since 1992. The yen jumped on the news.

In the **euro area**, industrial production fell by 0.8% in October, after slipping by 0.3% the month before. The two falls leave the sector's output just 0.1% higher than it was in October 2004. Hourly labour costs in the euro area rose by 2.2% in the year to the third quarter, the slowest pace since 1998.

In **Britain** retail sales volumes grew by 1.3% in the three months to November compared with the same period a year ago.

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Output, demand and jobs

Dec 20th 2005
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2005	2006	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 2.6	Q3	+ 0.6	+ 2.6	+ 3.3	+ 0.7	Q2	+ 1.2	Q3	5.1	Nov	5.2
Austria	+ 1.8	Q3	+ 2.3	+ 1.6	+ 2.0	+ 1.6	Sep	+ 0.9	Sep	5.2	Nov	5.0
Belgium	+ 1.1	Q3	+ 1.7	+ 1.3	+ 1.8	– 7.7	Oct	+ 0.9	Sep	12.8	Nov†	12.8
Britain	+ 1.7	Q3	+ 1.6	+ 1.7	+ 2.1	– 1.8	Oct	+ 2.1	Nov	4.9	Oct††	4.7
Canada	+ 2.8	Q3	+ 3.6	+ 2.9	+ 3.0	+ 1.1	Sep	+ 2.2	Sep	6.4	Nov	7.2
Denmark	+ 4.8	Q3	+ 5.7	+ 2.4	+ 2.4	+ 4.6	Oct	+ 4.4	Oct	5.4	Oct	6.3
France	+ 1.8	Q3	+ 2.7	+ 1.6	+ 1.9	– 1.4	Oct	+ 0.5	Sep	9.7	Oct	10.0
Germany	+ 1.4	Q3	+ 2.5	+ 1.0	+ 1.5	+ 3.8	Oct	– 0.8	Oct	11.5	Nov§	10.7
Italy	+ 0.1	Q3	+ 1.1	+ 0.1	+ 1.2	– 2.7	Oct	+ 0.1	Sep	7.7	Jun	8.1
Japan	+ 2.9	Q3	+ 1.0	+ 2.4	+ 2.2	+ 3.0	Oct	+ 0.4	Oct	4.5	Oct	4.6
Netherlands	+ 0.9	Q3	+ 1.3	+ 0.7	+ 1.8	+ 0.1	Oct	+ 2.7	Sep	6.5	Nov**	6.4
Spain	+ 3.5	Q3	+ 3.3	+ 3.4	+ 3.0	– 0.4	Oct	– 0.2	Oct	8.6	Oct	10.6
Sweden	+ 3.4	Q3	+ 3.9	+ 2.4	+ 2.8	+ 2.5	Oct	+ 7.3	Oct	5.0	Nov†	4.9
Switzerland	+ 2.3	Q3	+ 4.3	+ 1.3	+ 1.8	+ 3.9	Q2	+ 1.6	Sep	3.7	Nov†	3.9
United States	+ 3.7	Q3	+ 4.3	+ 3.6	+ 3.3	+ 2.8	Nov	+ 2.8	Oct	5.0	Nov	5.4
Euro area	+ 1.6	Q3	+ 2.6	+ 1.3	+ 1.8	+ 0.1	Oct	+ 0.4	Oct	8.3	Oct	8.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 1.9	Q3	+12.1	na	na	– 0.8	Oct	+ 5.6	Oct	8.3	Nov	8.7
Greece	+ 3.8	Q3	na	na	na	+ 3.5	Oct	+ 2.1	Sep	9.7	Q3	10.1
Iceland	+ 4.0	Q3	na	na	na	na		na		1.4	Oct†	2.7
Ireland	+ 4.1	Q2	+ 6.5	na	na	+ 0.3	Oct	+ 4.3	Oct	4.3	Nov	4.3
Luxembourg	+ 3.1	Q1	na	na	na	+ 4.9	Sep	+ 1.7	Oct	4.8	Oct	4.3
New Zealand	+ 2.6	Q2	+ 4.5	na	na	– 1.5	Q2	+ 4.9	Q3	3.4	Q3	3.8
Norway	+ 3.1	Q3	+ 3.2	na	na	– 4.1	Oct	+ 3.5	Oct	4.7	Oct‡	4.5
Portugal	+ 0.2	Q3	– 3.7	na	na	+ 0.7	Oct	– 0.4	Oct	7.7	Q3†	6.8

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ††Aug-Oct; claimant count rate 2.9% in Nov. §EU harmonised rate 9.1% in Oct. **Sep-Nov.

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Prices and wages

Dec 20th 2005
From The Economist print edition

% change on year ago

	Consumer prices		The Economist poll consumer prices forecast		Producer prices		Wages/earnings	
	latest	year ago	2005	2006	latest	year ago	latest	year ago
Australia	+ 3.0 Q3	+ 2.3	+ 2.8	+ 2.8	+ 6.2 Q3	+ 6.1	+ 6.1 Q3	+ 3.5
Austria	+ 1.6 Nov	+ 2.6	+ 2.3	+ 2.0	+ 0.9 Nov	+ 5.6	+ 2.4 Nov	+ 2.0
Belgium	+ 2.6 Nov	+ 2.5	+ 2.5	+ 2.0	+ 1.6 Oct	+ 6.0	+ 2.3 Oct	+ 2.4
Britain	+ 2.1 Nov*	+ 1.5	+ 2.2	+ 2.1	+ 2.3 Nov	+ 3.5	+ 3.6 Oct†	+ 4.2
Canada	+ 2.6 Oct	+ 2.3	+ 2.4	+ 2.4	+ 1.4 Oct	+ 5.4	+ 2.2 Sep	+ 2.4
Denmark	+ 2.0 Nov	+ 1.3	+ 2.0	+ 2.0	+ 3.9 Nov	+ 3.2	+ 2.8 Q3	+ 2.9
France	+ 1.6 Nov	+ 2.0	+ 1.9	+ 1.7	+ 2.9 Oct	+ 3.5	+ 3.2 Q3	+ 2.9
Germany	+ 2.3 Nov	+ 1.8	+ 2.0	+ 1.8	+ 2.2 Nov	+ 4.1	+ 1.0 Oct	+ 2.3
Italy	+ 2.2 Nov	+ 1.9	+ 2.1	+ 2.0	+ 3.9 Oct	+ 4.4	+ 3.0 Oct	+ 2.7
Japan	– 0.7 Oct	+ 0.5	– 0.2	+ 0.3	+ 1.9 Nov	+ 2.1	– 0.1 Oct	+ 0.4
Netherlands	+ 1.8 Nov	+ 1.3	+ 1.5	na	+ 4.7 Oct	+ 7.1	+ 1.1 Nov	+ 0.8
Spain	+ 3.4 Nov	+ 3.5	+ 3.3	+ 3.1	+ 4.9 Oct	+ 5.4	+ 3.4 Q2	+ 3.1
Sweden	+ 0.8 Nov	+ 0.5	+ 0.8	+ 1.6	+ 4.1 Oct	+ 3.0	+ 3.4 Sep	+ 3.1
Switzerland	+ 1.0 Nov	+ 1.5	+ 1.3	+ 1.3	+ 1.0 Oct	+ 2.0	+ 0.9 2004	+ 1.4
United States	+ 3.5 Nov	+ 3.5	+ 3.3	+ 3.1	+ 5.9 Oct	+ 4.4	+ 3.2 Nov	+ 2.4
Euro area	+ 2.3 Nov	+ 2.2	+ 2.2	+ 2.0	+ 4.1 Oct	+ 4.1	+ 2.2 Q3	+ 1.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 0.9 Nov	+ 0.5	na	na	+ 4.3 Nov	+ 1.8	+ 3.6 Q3	+ 4.0
Greece	+ 3.5 Nov	+ 3.1	na	na	+ 6.3 Oct	+ 5.3	na	na
Iceland	+ 4.1 Dec	+ 3.9	na	na	+ 3.9 Nov	+ 6.1	+ 6.9 Oct	+ 5.3
Ireland	+ 2.6 Nov	+ 2.9	na	na	+ 0.9 Oct	– 0.4	+ 3.4 Q2	+ 4.3
Luxembourg	+ 2.5 Nov	+ 2.4	na	na	+ 3.0 Oct	+14.6	+ 1.2 Aug	+ 2.3
New Zealand	+ 3.4 Q3	+ 2.5	na	na	+ 6.1 Q3	+ 2.5	+ 3.0 Q3	+ 2.2
Norway	+ 1.8 Nov	+ 1.2	na	na	+17.9 Nov	+13.3	+ 2.6 Q3	+ 4.3
Portugal	+ 2.6 Nov	+ 2.5	na	na	+ 4.1 Oct	+ 5.3	– 0.1 Oct	– 2.4

*RPI inflation rate 2.4% in Nov. †Aug-Oct.

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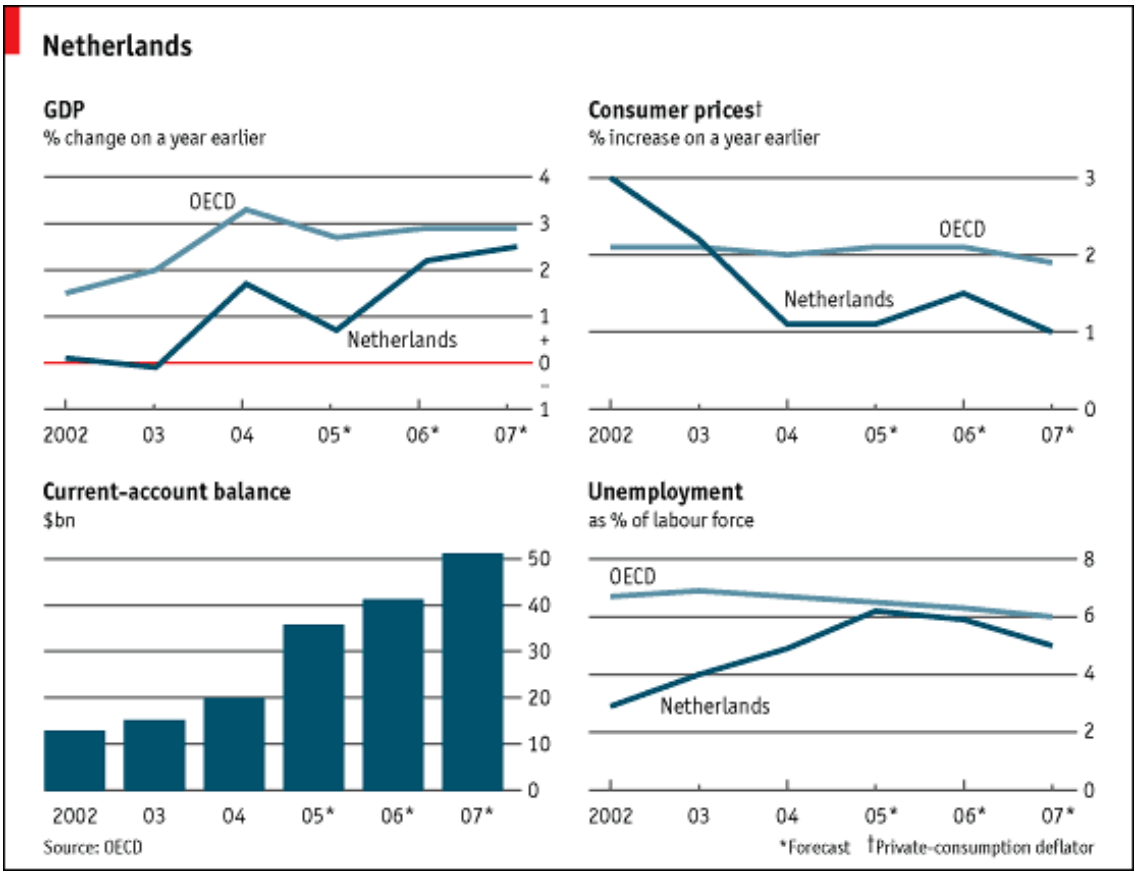
Deloitte.

Netherlands

Dec 20th 2005
From The Economist print edition

With weak growth, flat prices and rising unemployment, the Netherlands has suffered "one of the worst periods of sluggishness in recent decades", according to the OECD's latest survey. Its vigour in the 1990s was dissipated when house prices collapsed, the stockmarket fell and the euro strengthened. But the country's fortunes are about to turn, the OECD reckons. It forecasts that growth will increase to 2.2% in 2006 and 2.5% in 2007. Unemployment should come down from 6.2% this year to 5.0% in 2007. This belated recovery should not obscure that the economy lacks resilience, the OECD argues, and takes longer than its peers do to rebound from economic setbacks. It is particularly slow to cut labour costs, because jobs are well-protected and labour hoarded. Rates of employment are high, but the Dutch work a shorter year (1,357 hours) than anyone else in the OECD.



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Money and interest rates

Dec 20th 2005
From The Economist print edition

	Money supply* % change on year ago			Interest rates % a year (Dec 19th 2005)					
				3-mth money market		2-year gov't bonds	10-year gov't bonds		corporate bonds
	narrow	broad		latest	year ago		latest	year ago	
Australia	+ 6.5	+ 7.9	Oct	5.64	5.42	5.30	5.46‡	5.19	6.32
Britain	+ 5.3	+11.6	Oct	4.59	4.83	4.27	4.26‡	4.45	5.15
Canada	+ 7.8	+ 8.9	Oct	3.35	2.43	3.80	4.16‡	4.30	5.24
Denmark	+19.0	+14.1	Oct	2.45	2.25	2.84	3.34‡	3.70	4.94
Japan	+ 5.5	+ 2.0	Nov	0.02	0.02	0.25	1.56‡	1.35	1.59
Sweden	+ 4.0	+ 8.5	Oct	1.68	1.97	2.50	3.38‡	3.73	3.29
Switzerland	+ 4.2	+ 6.4	Nov	0.99	0.78	1.61	2.03	2.19	2.32
United States	- 0.2	+ 7.4	Nov	4.23	2.37	4.38	4.53‡	4.07	5.45
Euro area†	+11.2	+ 8.0	Oct	2.48	2.18	2.77	3.37‡	3.50	3.76

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. ‡ Dec 13th. Benchmarks: US 30-year 4.64%, Japan No. 274 1.54%. Central bank rates: US fed funds 4.25%, ECB refinancing 2.25%, BOJ overnight call 0.001%, BOE repo 4.5%. Sources: Bank of Canada, Commerzbank, Danske Bank, J.P. Morgan Chase, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Dec 20th 2005
From The Economist print edition

2000=100

	Dec 13th	Dec 16th*	% change on one month	% change on one year
Dollar index				
All items	143.2	143.2	+ 4.9	+14.1
Food	126.4	127.3	+ 4.0	+ 7.2
Industrials				
All	165.0	163.8	+ 5.7	+22.1
Nfa†	137.3	134.9	+ 1.8	+13.8
Metals	180.1	179.5	+ 7.4	+25.7
Sterling index				
All items	122.8	123.1	+ 1.8	+24.6
Euro index				
All items	111.0	110.8	+ 2.8	+27.6
Yen index				
All items	159.6	154.9	+ 2.5	+27.2
Gold				
$ per oz	524.70	504.95	+ 2.7	+14.4
West Texas Intermediate				
$ per barrel	61.29	58.15	– 0.2	+27.8

* Provisional. † Non-food agriculturals.

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Stockmarkets

Dec 20th 2005
From The Economist print edition

Market indices

	Dec 19th	2005 high	2005 low	% change on one week	% change on record high	Dec 31st 2004 in local currency	Dec 31st 2004 in $ terms
Australia (All Ordinaries)	4,600.8	4,617.4	3,905.5	+ 0.8	- 0.4	+13.5	+ 7.6
Austria (ATX)	3,571.4	3,617.4	2,415.0	+ 0.4	- 1.3	+46.9	+29.6
Belgium (Bel 20)	3,501.3	3,501.3	2,958.8	+ 1.3	- 4.9	+19.4	+ 5.4
Britain (FTSE 100)	5,539.8	5,539.8	4,783.6	+ 0.7	-20.1	+15.1	+ 5.6
Canada (Toronto Composite)	11,154.3	11,167.2	9,006.2	+ 0.5	- 2.1	+20.6	+24.4
Denmark (OMXCB)	355.7	356.8	257.8	+ 0.4	- 0.3	+38.0	+21.5
France (SBF 250)	3,283.4	3,289.4	2,633.6	+ 0.4	-25.2	+24.6	+10.0
(CAC 40)	4,694.9	4,704.4	3,816.1	+ 0.5	-32.2	+22.9	+ 8.4
Germany (DAX)*	5,350.2	5,353.7	4,178.1	+ 0.9	-33.7	+25.7	+10.9
Italy (S&P/MIB)	35,347.0	35,347.0	30,645.0	+ 1.3	-29.5	+14.4	+ 0.9
Japan (Nikkei 225)	15,391.5	15,778.9	10,825.4	- 2.2	-60.4	+34.0	+18.3
(Topix)	1,589.2	1,626.2	1,109.2	- 1.7	-44.9	+38.2	+22.1
Netherlands (AEX)	435.3	436.2	347.0	+ 0.6	-38.0	+25.1	+10.4
Spain (Madrid SE)	1,137.3	1,176.9	950.9	nil	- 3.4	+18.6	+ 4.6
Sweden (Affarsvarlden Gen)	287.2	287.2	218.9	+ 0.5	-28.3	+29.8	+ 9.8
Switzerland (Swiss Market)	7,532.9	7,612.0	5,669.6	- 0.5	-10.5	+32.3	+16.3
United States (DJIA)	10,836.5	10,940.6	10,012.4	+ 0.6	- 7.6	+ 0.5	+ 0.5
(S&P 500)	1,259.9	1,272.7	1,137.5	nil	-17.5	+ 4.0	+ 4.0
(NASDAQ Comp)	2,222.7	2,273.4	1,904.2	- 1.7	-56.0	+ 2.2	+ 2.2
Europe (FTSEurofirst 300)†	1,266.9	1,268.5	1,038.6	+ 0.1	-25.7	+21.6	+ 7.3
Euro area (FTSE Euro 100)†	1,079.8	1,081.7	894.4	+ 0.8	-30.4	+19.9	+ 5.8
World (MSCI)‡	1,263.6	1,270.9	1,115.0	+ 0.2	-12.8	+ 8.1	+ 8.1
World bond market (Citigroup)††	626.5	662.3	608.7	+ 1.5	- 5.4	- 6.0	- 6.0

*Total return index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Dec 20th 2005
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current-account balance $bn latest 12 mths		The Economist poll % of GDP, forecast 2005	2006	Exchange rate trade-weighted† 2000=100 Dec 19th	year ago	Currency units per $ Dec 19th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2005‡
Australia	− 15.3	Oct	− 43.5	Q3	− 5.9	− 5.3	117.1	112.5	1.35	1.31	2.37	1.61	1.16	+ 1.0
Austria	− 1.9	Sep	+ 0.2	Sep	nil	− 0.2	103.8§	104.4	0.83	0.75	1.47	–	0.72	− 2.0
Belgium	+ 16.1	Oct	+ 9.2	Jun	+ 2.3	+ 2.3	104.3§	105.1	0.83	0.75	1.47	–	0.72	nil
Britain	−115.5	Oct	− 43.6	Q2	− 1.7	− 1.9	98.9	99.7	0.57	0.51	–	0.68	0.49	− 3.1
Canada	+ 50.9	Oct	+ 19.6	Q3	+ 1.6	+ 1.6	124.9	115.1	1.16	1.23	2.05	1.39	1.00	+ 1.3
Denmark	+ 10.0	Oct	+ 9.7	Oct	+ 2.9	+ 2.6	106.0	107.0	6.22	5.54	11.0	7.46	5.36	+ 2.8
France	− 28.9	Oct	− 31.4	Oct	− 1.1	− 0.9	106.8§	107.7	0.83	0.75	1.47	–	0.72	− 3.2
Germany	+202.9	Oct	+113.6	Oct	+ 3.9	+ 3.7	104.6§	105.5	0.83	0.75	1.47	–	0.72	− 3.9
Italy	− 11.2	Oct	− 27.8	Sep	− 1.4	− 1.5	76.5§	77.1	0.83	0.75	1.47	–	0.72	− 4.3
Japan	+ 98.2	Oct	+164.3	Oct	+ 3.3	+ 3.3	82.9	88.5	116	104	205	139	–	− 6.5
Netherlands	+ 39.3	Oct	+ 44.3	Q3	+ 4.2	+ 4.2	103.8§	104.6	0.83	0.75	1.47	–	0.72	− 1.6
Spain	− 93.9	Sep	− 79.0	Aug	− 6.0	− 5.7	77.2§	77.6	0.83	0.75	1.47	–	0.72	+ 0.3
Sweden	+ 20.8	Oct	+ 24.2	Q3	+ 7.1	+ 6.5	95.1	101.4	7.86	6.70	13.8	9.42	6.77	+ 1.2
Switzerland	+ 7.0	Oct	+ 51.4	Q2	+12.5	+12.0	106.4	108.5	1.29	1.15	2.28	1.55	1.11	− 1.6
United States	−767.8	Oct	−780.6	Q3	− 6.5	− 6.5	86.4	81.1	–	–	1.76	1.20	0.86	− 3.7
Euro area	+ 47.3	Sep	+ 1.4	Sep	+ 0.1	+ 0.1	115.7	120.1	0.83	0.75	1.47	–	0.72	− 2.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 11.6	Oct	+ 7.3	Oct	na	na	81.4§	81.9	0.83	0.75	1.47	–	0.72	+ 2.1
Greece	− 34.0	Sep	− 16.5	Sep	na	na	59.9§	60.2	0.83	0.75	1.47	–	0.72	− 4.5
Iceland	− 1.3	Oct	− 2.2	Q3	na	na	106.7**	96.6	63.2	62.7	111	75.8	54.5	+ 2.0
Ireland	+ 40.5	Oct	− 3.9	Q2	na	na	94.0§	95.2	0.83	0.75	1.47	–	0.72	− 0.9
Luxembourg	− 4.5	Sep	+ 3.5	Q2	na	na	104.3§	105.1	0.83	0.75	1.47	–	0.72	− 2.3
New Zealand	− 4.3	Oct	− 8.2	Q2	na	na	138.3	133.4	1.45	1.39	2.56	1.74	1.25	+ 5.3
Norway	+ 46.0	Nov	+ 43.7	Q3	na	na	109.1	106.1	6.67	6.15	11.8	8.00	5.75	+ 15.3
Portugal	− 14.2	Aug	− 16.6	Sep	na	na	93.4**	93.6	0.83	0.75	1.47	–	0.72	− 6.0

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, October average. ‡OECD forecast. **IMF, August average.

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Champagne shipments

Dec 20th 2005
From The Economist print edition

Worldwide shipments of champagne topped 300m bottles in 2004, an increase of 2% over the previous year. Britain imports more bubbly than any other country. But the world is not partying as wildly as it did in 1999. That year 327m bottles were shipped.

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Overview

Dec 20th 2005
From The Economist print edition

Russia's GDP grew by 7.0% in the year to the third quarter; industrial production expanded by 5.5% in the year to November.

Argentina grew by 9.2% in the year to the third quarter, thanks to higher government spending. **Brazil's** central bank lowered its key interest rate from 18.5% to 18.0%, its fourth cut in as many months.

Industrial production in the year to October grew by 10.8% in **Venezuela** and 2.6% in **Mexico**. It slumped by 5.9% in **Indonesia**.

Poland's consumer prices rose by just 1.0% in the year to November.

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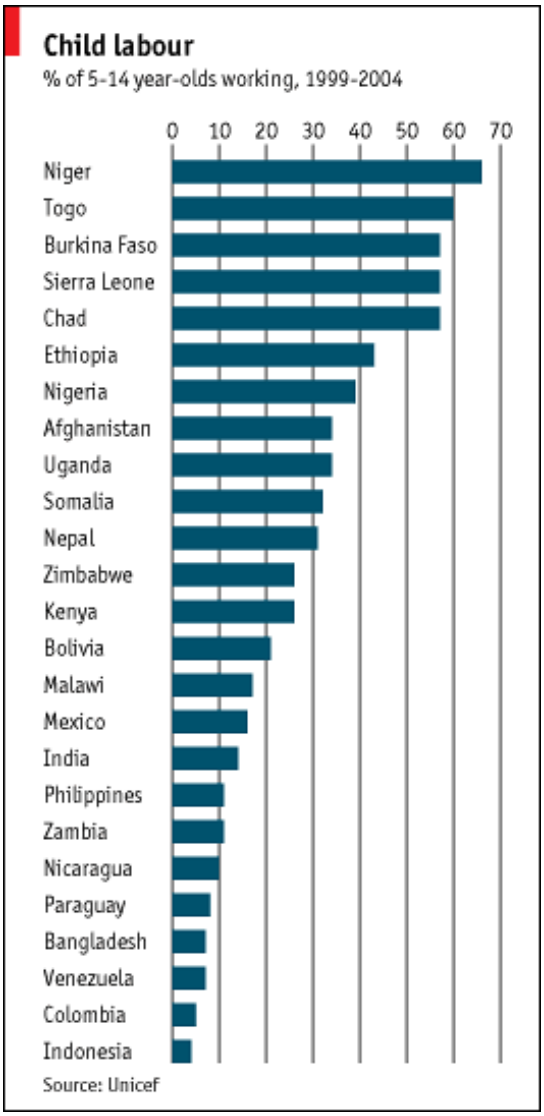
Child labour

Dec 20th 2005
From The Economist print edition

Work is not necessarily harmful for a child, says Unicef, the UN agency dedicated to children's rights and welfare, but a heavy burden can damage children's education and health. Its measure of child labour counts anyone aged 5-11 who does paid or unpaid work for someone outside the household. It also includes 12- to 14-year-olds who work for more than 14 hours a week. Household chores can also qualify as child labour, if they are onerous enough. Unicef estimates that there are 246m child labourers worldwide. Perhaps 70% or more work in agriculture.



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Economy

Dec 20th 2005
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.4	Q3	+16.6	Nov	+ 1.3	Nov	+102.1	Nov	+128.5	H1	769.0	Sep
Hong Kong	+ 8.2	Q3	+ 4.1	Q3	+ 1.8	Oct	– 9.0	Oct	+21.5	Q2	122.4	Nov
India	+ 8.0	Q3	+ 8.5	Oct	+ 4.2	Oct	–36.5	Oct	–16.0	Q2	136.0	Nov
Indonesia	+ 5.3	Q3	– 5.9	Oct	+18.4	Nov	+25.6	Oct	+ 4.0	Q2	31.2	Oct
Malaysia	+ 5.3	Q3	+ 4.4	Oct	+ 3.5	Nov	+25.0	Oct	+18.0	Q2	76.4	Oct
Philippines	+ 4.1	Q3	– 5.0	Sep	+ 7.1	Nov	– 1.9	Sep	+ 3.2	Jun	15.5	Nov
Singapore	+ 6.0	Q3	+17.6	Oct	+ 1.1	Oct	+17.3	Nov	+33.7	Q3	114.9	Nov
South Korea	+ 4.5	Q3	+ 8.0	Oct	+ 2.4	Nov	+25.2	Nov	+19.2	Oct	207.2	Oct
Taiwan	+ 4.4	Q3	+ 9.3	Oct	+ 2.5	Nov	+ 3.8	Nov	+ 8.9	Q3	251.8	Nov
Thailand	+ 5.3	Q3	+ 4.9	Oct	+ 5.9	Nov	– 7.9	Oct	– 3.0	Oct	48.5	Oct
Argentina	+ 9.2	Q3	+ 6.8	Oct	+12.0	Nov	+11.5	Oct	+ 2.9	Q2	25.7	Oct
Brazil	+ 1.0	Q3	+ 0.4	Oct	+ 6.2	Nov	+43.9	Nov	+13.0	Oct	59.7	Oct
Chile	+ 5.2	Q3	+ 4.2	Oct	+ 3.6	Nov	+ 9.2	Nov	– 0.2	Q3	16.0	Nov
Colombia	+ 5.3	Q2	+ 3.4	Sep	+ 5.1	Nov	+ 1.5	Sep	– 0.8	Q2	14.6	Nov
Mexico	+ 3.3	Q3	+ 2.6	Oct	+ 2.9	Nov	– 9.5	Oct	– 8.4	Q3	71.2	Oct
Peru	+ 7.2	Oct	+ 4.1	Oct	+ 1.1	Nov	+ 4.3	Sep	+ 0.8	Q3	12.6	Nov
Venezuela	+ 9.8	Q3	+10.8	Oct	+15.3	Nov	+28.2	Q3	+21.6	Q3	24.4	Oct
Egypt	+ 5.2	Q1	+ 3.3	2004†	+ 3.9	Oct	–10.4	Q2	+ 2.9	Q2	19.8	Oct
Israel	+ 5.7	Q3	+12.1	Sep	+ 2.7	Nov	– 7.8	Nov	+ 2.4	Q3	28.1	Nov
South Africa	+ 4.9	Q3	+ 0.3	Oct	+ 3.4	Nov	– 2.9	Oct	–10.3	Q3	17.9	Nov
Czech Republic	+ 4.9	Q3	+ 6.3	Oct	+ 2.4	Nov	+ 1.5	Oct	– 3.4	Q3	29.2	Nov
Hungary	+ 4.5	Q3	+ 9.8	Oct	+ 3.3	Nov	– 3.5	Oct	– 8.6	Q2	16.7	Nov
Poland	+ 3.7	Q3	+ 8.5	Nov	+ 1.0	Nov	– 3.0	Oct	– 4.5	Oct	39.9	Nov
Russia	+ 7.0	Q3	+ 5.5	Nov	+10.4	Nov	+119.6	Oct	+87.4	Q3	164.7	Nov
Turkey	+ 7.0	Q3	+ 7.0	Oct	+ 7.6	Nov	–42.5	Oct	–22.1	Oct	44.8	Oct
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+10.8	Q3	+ 8.7	Oct	+ 3.9	Nov	– 2.4	Sep	– 1.4	Oct	1.9	Oct
Latvia	+11.4	Q3	+ 5.8	Oct	+ 7.4	Nov	– 2.9	Oct	– 1.8	Oct	2.3	Oct
Lithuania	+ 7.6	Q3	na		+ 2.8	Nov	– 3.5	Oct	– 1.6	Oct	3.7	Oct
Slovakia	+ 6.2	Q3	+ 4.5	Oct	+ 3.4	Nov	– 1.9	Oct	– 2.6	Aug	15.1	Oct
Slovenia	+ 3.7	Q3	+ 2.8	Oct	+ 2.1	Nov	– 1.5	Oct	+ 0.1	Oct	8.2	Sep
Pakistan	+ 8.4	2005†	+11.0	Jun	+ 7.9	Nov	– 8.9	Nov	– 3.7	Q3	10.0	Oct
Saudi Arabia	+ 6.2	2005‡	na		+ 0.4	Aug	+85.2	2004	+51.5	2004	29.8	Oct

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡Forecast.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group.

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Deloitte.

Financial markets

Dec 20th 2005
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Dec 19th		Dec 31st 2004	
	Dec 19th	year ago	Dec 19th	% a year		one week	in local currency	in $ terms
China	8.07	8.28	14.2	2.90	1,190.4	+1.4	– 10.5	– 8.3
Hong Kong	7.75	7.78	13.7	4.18	15,182.9	+1.3	+ 6.7	+ 7.0
India	45.0	43.9	79.3	5.64	9,394.3	+2.9	+ 42.3	+ 37.5
Indonesia	9,855	9,300	17,368	15.00	1,162.3	-1.1	+ 16.2	+ 9.5
Malaysia	3.78	3.80	6.66	3.20	895.9	-0.1	– 1.3	– 0.8
Philippines	53.2	56.3	93.7	7.69	2,024.7	-3.6	+ 11.1	+ 17.2
Singapore	1.66	1.65	2.93	3.22	2,326.6	-0.2	+ 12.6	+ 10.6
South Korea	1,016	1,061	1,790	4.07	1,339.4	+0.5	+ 49.5	+ 52.4
Taiwan	33.2	32.4	58.5	1.55	6,431.4	+2.6	+ 4.8	nil
Thailand	41.0	39.2	72.2	4.50	691.3	-0.9	+ 3.5	– 1.8
Argentina	3.04	2.98	5.36	8.00	1,502.4	-1.3	+ 9.2	+ 6.8
Brazil	2.37	2.71	4.18	18.03	33,005.0	+0.1	+ 26.0	+ 41.2
Chile	518	574	912	5.28	9,280.2	nil	+ 3.5	+ 11.1
Colombia	2,287	2,363	4,030	6.35	8,785.2	-2.7	+102.2	+108.0
Mexico	10.7	11.3	18.9	8.14	17,666.4	+0.6	+ 36.8	+ 42.2
Peru	3.44	3.27	6.06	3.44	4,442.6	-14.6	+ 19.7	+ 14.2
Venezuela	2,692§	2,612§	4,744	11.50	19,546.7	-1.3	– 34.7	– 37.5
Egypt	5.74	6.22	10.12	8.57	52,727.0	-0.5	+114.5	+126.8
Israel	4.61	4.34	8.12	4.82	812.3	+0.1	+ 26.2	+ 18.2
South Africa	6.37	5.80	11.2	7.15	17,869.9	+1.6	+ 41.2	+ 24.9
Czech Republic	24.1	23.0	42.5	2.16	1,448.5	+1.1	+ 40.4	+ 29.8
Hungary	210	185	371	6.30	21,059.4	nil	+ 42.8	+ 22.7
Poland	3.21	3.13	5.66	4.62	34,942.1	+1.3	+ 31.2	+ 22.4
Russia	28.7	27.9	50.5	13.00	1,103.8‡	+0.7	+ 85.8	+ 79.7
Turkey	1.35	1.40	2.38	14.77	37,960.1	-0.6	+ 52.0	+ 51.8
EM (MSCI)*	1.00	1.00	1.76	na	693.9	+0.8	+ 28.0	+ 28.0
EMBI+†	1.00	1.00	1.76	na	364.2	+0.5	+ 10.5	+ 10.5

*Emerging Mkts. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group.

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